NOTICE OF PUBLIC MEETING

This notice is given to meet the requirements of the S.C. Freedom of Information Act and the Americans with Disabilities Act. Furthermore, this facility is accessible to individuals with disabilities, and special accommodations will be provided if requested in advance.

RETIREMENT SYSTEM INVESTMENT COMMISSION

Date: October 2, 2014
Time: 9:00 a.m.
Location: The Capitol Center
1201 Main Street
Columbia, South Carolina 29201
Meeting Room: Presentation Center, 15th Floor

I. Call to Order and Consent Agenda – 9:00 a.m.
   A. Adoption of Proposed Agenda
   B. Approval of Minutes
      1. May 1, 2014
      2. June 3, 2014
      3. June 16-17, 2014

II. Chairman's Report – 9:15 a.m.
   A. Material Interest Form

III. Executive Director's Report – 9:30 a.m.
   A. Introductory Comments by Executive Director
   B. Approval of FY 2015-16 Budget Proposal
   C. Investor Name Change Initiative

IV. CIO's Report – 10:00 a.m.
   A. CIO's Comments
   B. 2nd Quarter Investment Performance Update and Review
   C. Update from HEK
   D. Approval of SIOP

V. Human Resources and Compensation Committee Report – 11:00 a.m.

VI. Audit Committee Report – 11:15 a.m.

VII. Russell Consent - 11:30 a.m.

VIII. Investment recommendations – 11:35 a.m.

A. Global Equity
1. AQR
2. DE Shaw
3. InTech

Break -- 12:15 p.m. to 1:00 p.m.

B. Real Estate
1. BREF IV

C. Private Debt
1. KKR Lending Partners

IX. Review Organizational Chart – 2:00 p.m.
A. Review of Committees
B. Review of Internal Investment Committee

X. Committee Composition - 2:15 p.m.

XI. Vendor Agreement Discussion – 2:30 p.m.

XII. Executive Session to discuss investment matters pursuant to S.C. Code Sections 9-16-80 and 9-16-320, personnel matters pursuant to S.C. Code Section 30-4-70(a)(1), security matters pursuant to S.C. Code Ann. Sections 30-4-70(a)(3), and receive advice from legal counsel pursuant to S.C. Code Section 30-4-70(a)(2) – 3:00 p.m.

XIII. Indemnification Requests - 4:45 p.m.

XIV. Adjournment – 5:00 p.m.

South Carolina Retirement System Investment Commission
Meeting Minutes

May 1, 2014

South Carolina Retirement System Investment Commission
1201 Main Street, 15th Floor
Columbia, SC 29201
Meeting Location: Presentation Center

Committee Members Present:
Mr. Reynolds Williams, Chairman
Mr. Edward Giobbe, Vice Chairman
State Treasurer Curtis M. Loftis, Jr. (via telephone and in person)
Dr. Rebecca Gunnlaugsson
Mr. Allen Gillespie (via telephone and in person)
Dr. Ronald Wilder
Mr. Travis Turner

Others present for all of or a portion of the meeting on Thursday, May 1, 2014:

Mike Addy, Ashli Aslin, Geoff Berg, Betsy Burn, Gail Cassar, Andrew Chernick, Sarah Corbett, Dori Ditty, Scott Forrest, Brenda Gadson, Lorelei Graye, Hershel Harper, Monica Houston, Adam Jordan, James Manning, David Phillips, Kathy Rast, Greg Ryberg, Lorrie Smith, Danny Varat, Nicole Waites and Brian Wheeler from the South Carolina Retirement System Investment Commission; Clarissa Adams, Faye Amick and Robin Johnson from the State Treasurer's Office; Rick Funston, Keith Johnson, Ken Johnson, and Randy Miller from Funston Advisory Services; Suzanne Bernard and Brady O'Connell from Hewitt EnnisKnupp, Inc.; Faith Wright and Tammy Nichols from Public Employee Benefits Authority; Wayne Bell, Donald Tudor, Sam Griswold, and Wayne Pruitt from the States Retirees Association of South Carolina; Brian D. Lamkin and Patrick O'Malley from the Office of Inspector General; Representative Bruce Bannister from the South Carolina House of Representatives; Senator Kevin Bryant from the South Carolina Senate; Bridgett Frasier from Goldman Sachs; Brian Adams; and M. Sean Cary from Creel Court Reporting.

I. CALL TO ORDER AND CONSENT AGENDA:

Chairman Reynolds Williams called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 9:03 a.m. Chairman Williams referred to the proposed meeting agenda and asked for a motion to approve. Dr. Ronald Wilder made a motion, which was seconded by Dr. Rebecca Gunnlaugsson and passed unanimously, to approve the agenda as presented.

Chairman Williams referred to the draft minutes from the March 13, 2014 Commission meeting and asked if there were any objections or corrections and asked for a motion to adopt the minutes. Dr. Wilder made a motion, which was seconded by Mr. Edward Giobbe. The motion to adopt the meeting minutes from March 13, 2014 Commission Meeting as presented passed unanimously.

II. SECURITIES LENDING:

Chairman Williams recognized Managing Director Geoff Berg to present proposed changes to the securities lending program. Mr. Berg stated that Staff recommended adding Deutsche Bank as a second securities lending agent in the South Carolina Retirement System ("SCRS") trust funds' securities lending program in addition to the current relationship with The Bank of New York Mellon. Mr. Berg began his presentation by noting the four purposes of the proposed program changes: reducing the risk of lending; improving earnings from the lending of securities; improving earnings from reinvestment of collateral posted by borrowers of the securities, and improving transparency and reporting. Mr. Berg provided a brief overview of securities lending generally. He explained the risks of securities lending, which can include insufficient collateral, loss from inability or unwillingness of a borrower to repay debt, and loss from sharp changes in interest rates. Mr. Berg then explained how, in Staff's opinion, the addition of Deutsche Bank as a second lending agent for the SCRS trust funds' securities lending program fulfilled the four purposes previously identified. There was also discussion regarding the dual form of indemnification offered to the SCRS trust funds by Deutsche Bank.

Chairman Williams directed the commissioners' attention to the following motion that had been prepared regarding implementation of the proposed changes to the SCRS trust funds' securities lending program as presented.

Modify the SCRS trust funds' securities lending program as follows:

I. create a second component to the SCRS trust funds' securities lending program, pursuant to which:
   a. the Commission retains Deutsche Bank to serve as a third party lending agent and as a manager of a securities lending collateral pool;
   b. the Commission will contract directly with Deutsche Bank;
   c. RSIC staff will monitor and oversee the manager; and
   d. Guidelines for both the securities lending and cash collateral reinvestment program will be established by the CIO, under terms and conditions consistent with the materials presented to the Commission.

II. authorize the Chairman and CIO or their designee to negotiate and execute any necessary documents to implement the action approved by the Commission, upon documented approval for legal sufficiency by RSIC Legal Counsel, and upon expiration of the review period, as adopted by the Commission on July 19, 2012 (or as the review period may be amended or superseded by the Commission).

Dr. Wilder made the foregoing motion, which was seconded by Dr. Gunnlaugsson. During the ensuing discussion, Mr. Curtis Loftis pointed out that his Office had had a limited time to review the report and provide input. Mr. Loftis further indicated that the information was good but that it would be imprudent to vote on it at this meeting. Chairman Williams asked for any further discussion. None being heard, the Chairman called for a vote. The motion was approved by a vote of 5-1, with Chairman Williams, Mr. Edward Giobbe, Dr. Gunnlaugsson, Mr. Allen Gillespie, and Dr. Wilder voting for the motion, and Mr. Loftis opposed.

III. CHAIRMAN'S REPORT:

Chairman Williams recognized Senator Bryant and Representative Bannister and thanked them for attending the meeting. Chairman Williams distributed the Commission's self-evaluation materials and noted the due date for returning the materials.

IV. FIDUCIARY AUDIT PRESENTATION:

Chairman Williams introduced the next agenda item. He noted that Funston Advisory Services ("Funston") had conducted a comprehensive fiduciary audit of the Commission, pursuant to a contract awarded by the Office of the Inspector General. Chairman Williams recognized Rick Funston, Keith Johnson, Ken Johnson and Randy Miller and asked them to present their report.

Mr. Rick Funston gave a brief statement of the purpose of the report, which was to conduct an evaluation of the fiduciary roles and responsibilities of the Commissioners, the staff, and the relationship with other fiduciaries, as well as the operational policies and practices of the Commission. Mr. Funston stated that the goal of the report was to identify strengths and weaknesses, provide a comparison with leading practices of other public pension plans, and to make recommendations for improvement.

Mr. Funston listed the six major areas that were reviewed: governance; policies; organizational structure; investment administration; legal compliance, and information technology. Mr. Funston also identified the six major questions the report attempted to answer: who are the fiduciaries; what are their duties; what are their authorities; do their authorities match their duties and are those duties in conflict with any other roles played by the various fiduciaries; how is the RSIC performing, and where and how can the RSIC improve? Mr. Funston summarized the report's recommendations, categorizing them by which entity in State government could implement the proposed changes. Mr. Funston noted that a total of 124 recommendations were made. Mr. Funston stated that 108 of the recommendations could be addressed directly by RSIC, and noted that of this subset of recommendations, 38 would require the direct involvement of the Commissioners. Of the remaining 16 recommendations, Mr. Funston noted that 12 would require action by the Legislature, and four would require action by the State Treasurer's Office.

Mr. Funston provided a summary of the review which the Funston team had conducted. He stated that there were no indicators of malfeasance or misfeasance regarding the Commission's current policies and practices. He also pointed to the number of improvements and initiatives that the Commission had undertaken over the past two years with regard to policies and controls, and noted that the Commission provides the most complete disclosure of external management fees by any U.S. public pension fund. Mr. Funston noted that manager selection and due diligence processes are consistent and thorough, although sometimes slower than industry norms. Mr. Funston also noted that although the RSIC had implemented a number of improvements in policies and controls, the lagging development of infrastructure results in growing operational risks, and ultimately financial risk.

Mr. Ken Johnson summarized results of the review that had been conducted by CEM Benchmarking comparing the Commission's cost of management to those of other public pension funds. Mr. Johnson provided information regarding the experience and qualifications of CEM Benchmarking. It was noted that the CEM study used the following factors to compare funds: asset allocation; cost of management; management strategies, and the net return of the various management strategies employed. The CEM study included a comparison to a 20 member peer group of funds ranging in size from $14 billion to $58 billion in assets under management ("AUM"), as well as a comparison to a group of 65 U.S. public funds of both greater and smaller sizes.

Mr. Ken Johnson discussed the two major areas of CEM's findings. First, CEM found that the Commission's policy benchmark return for the five year period ending December 31, 2012 had underperformed its peers. The Commission's policy benchmark return of 1.3 percent was the lowest in the peer group, resulting mostly from a large allocation to cash and higher weighting in alternative investments. It was noted, however, that through the efforts of staff, the actual return over this five year period was 2.5 percent. CEM noted that although the 1.3 percent was the lowest in the peer group, the 1.2 percent increment that staff contributed to get to the 2.5 percent total return was the largest in the peer group: Staff had added value above the asset allocation policy through its management of the investment portfolio. Additionally, 40 percent of the peer group had a lower absolute return during this five year period. Second, CEM found that RSIC's management costs were 1.03 percent of AUM in 2012, which was the highest in the peer group, due to the allocation to alternative investments. The peer group average during this five year period was 0.61 percent of AUM. Compared to other funds with similar asset allocations, CEM concluded that RSIC's costs were normal and not excessive. It was also noted that the actual management costs were very close to what CEM projected for the Commission in 2006 when the Commission was considering, among other factors, the potential cost implications of the asset allocation changes that it ultimately approved and implemented.

Mr. Ken Johnson reported that CEM was not able to provide a comparison of performance-based fees because RSIC's reporting transparency exceeds the standard in the industry and the lack of transparency from other funds prevented a meaningful comparison.

Mr. Ken Johnson suggested that it would be in the Commission's best interest to continue this type of benchmarking on a regular basis.

A discussion on the use of proxies to assess performance fees ensued. Mr. Ken Johnson was of the opinion that proxies were not reliable, while Mr. Loftis expressed the view that they would be better than no comparison at all.

Mr. Loftis asked whether CEM took into effect the long-term effect of a high-cost allocation. Mr. CEM did not report on whether the asset allocation was appropriate because that was left to the Commission to decide based on its unique circumstances.

Mr. Funston introduced the five overarching themes of Funston's recommendations:

1. Improving assurance and reassurance to build trust and confidence;
2. Building the organizational capabilities (including HR, IT, Accounting, etc.);
3. Reset Commissioners' focus on strategy and oversight;
4. Align fiduciary duties and responsibilities; and
5. Improve the custodial relationship.

Mr. Funston outline certain key points for moving forward which included: ensuring that fiduciaries having timely access to information; encouraging the Commissioners to be respectful and courteous; bolstering infrastructure at RSIC; adjusting the Commission's focus regarding the non-investment side of RSIC's operations; improving RSIC's work environment to limit turnover; counselling the Commissioners to avoid even the appearance of impropriety; advising the Commissioners to address the challenge of explaining the asset allocation and use/cost of external managers to all stakeholders; and noting that the Legislature can significantly help by better aligning responsibilities and authorities.

Mr. Funston then turned to Mr. Randy Miller to provide additional details regarding some of the recommendations associated with the five themes.

As to the first theme -- improving assurance and reassurance -- Mr. Miller presented the following suggestions for the Commission:

1. Develop a more proactive communications plan to make the Commission's positions understandable to key stakeholders;
2. Retain an independent fee benchmarking service;
3. Formalize its policy on fee disclosure;
4. Develop and deploy Enterprise Risk Management ("ERM");
5. Create a plan of executive accountability;
6. Approve the internal audit charter;
7. Improve sourcing and conflict disclosures; and
8. Oversee improved budget management.

As to the second theme – building the organizational capabilities of RSIC – the following suggestions from the Funston report were noted:
1. Create either a CEO or Executive Director position;
2. Create a Senior Human Resources position and function;
3. Oversee development of an enterprise infrastructure and resourcing plan;
4. Oversee further development of risk management systems and capabilities;
5. Eliminate the 30-day review period on investments;
6. Provide midyear feedback to executives;
7. Evaluate the performance of the general investment consultant; and
8. Ensure development of an IT staffing plan and IT capabilities.

There was brief discussion of the recommendation to create a CEO or Executive Director position, as well as the Commission's currently mandated 30 day review period and suggested changes. No actions were taken.

Mr. Miller then addressed the third theme -- resetting the Commissioners' focus on strategy and oversight. In order to shift the Commissioners' focus, Mr. Miller suggested that the Commission should: develop a statement of investment beliefs; increase emphasis on the review and discussion of asset class strategies; ensure that organizational capabilities are developed and maintained; preclude direct Commissioner involvement in due diligence; expand the mandate of the Audit Committee to include ERM; expand the mandate of the Compensation Committee to include Human Resources; hold more frequent Commission meetings; annually review implementation of the compensation policy; formalize the revised agenda setting process; improve Commission self-assessment; and institute a Commissioner self-development program.

Some discussion followed this section regarding the agenda setting process and the role of the Commissioners in due diligence.

Chairman Williams called for a short recess [Note: the recess lasted from 11:00 a.m. to 11:20 a.m.]

After the recess, Mr. Miller resumed his presentation by addressing the fourth theme. He presented the following suggestions to align fiduciary duties and responsibilities:
1. The Legislature should:
    i. Clarify the role of Budget and Control Board ("B&CB") and it successors.
    ii. Resolve the Treasurer's conflicting duties.
    iii. Amend existing legislation regarding the RSIC's senior management structure (change in CIO reporting).
    iv. Delegate operating budget, staffing and compensation approval to RSIC.
    v. Authorize an external audit or agreed upon procedures review of fund valuations, procedures and/ or controls.
    vi. Revise Commissioner's qualifications to recognize experience.

vii. Add 1 to 3 additional Commission members (provide an odd number of voting members).
viii. Consider term limits for Commissioners.
ix. Require a periodic review of assumed rate of return (and underlying assumptions).

2. The B&CB should allow RSIC additional exemptions from the State procurement process to cover acquisition of systems.
3. The Attorney General should set high level criteria and delegate selection of external counsel to RSIC.

During this section of Mr. Miller's presentation, there was discussion of the idea of making the PEBA representative to the Commission a voting member. Strong support was voiced by several commissioners for RSIC controlling its own budget and procurement process. There was brief discussion about the new administrator (Conifer) and when the services provided by Conifer are expect to be operational. There was also a discussion of the retention of outside counsel to represent RSIC and coordination with the Attorney General's Office, which under current law must approve retention of outside counsel by RSIC.

Mr. Miller presented Funston's suggestions relating to the fifth and final theme -- improving the custodian relationship. Mr. Miller noted that the Legislature could improve the custodian relationship by delegating selection of the custodial bank to RSIC. The Treasurer could improve the custodian relationship by reviewing positions required to sign for the release of cash transfers; instructing the custodial bank to accept signatory changes from RSIC; continuing to allow standing instructions for the custodial bank to receive incoming funds and sweep cash; and allowing electronic payment authorization. The Commission could improve the custodian relationship by determining the future of securities lending.

After Mr. Miller concluded his remarks, there was additional discussion by the commissioners regarding the suggestion that the Legislature transfer the custodial role away from STO.

Mr. Funston then offered concluding remarks regarding the Funston team's report. Chairman Williams asked for an overall opinion of RSIC from each member of the Funston team. The general reaction from the members of the Funston team was that RSIC was moving in the right direction and had showed significant improvement.

Chairman Williams thanked the Funston team and called a recess for lunch. (Note: the recess lasted from 12:26 p.m. until 12:54 p.m.). After the recess, the Chairman asked Mr. Hershel Harper, CIO, to present the CIO's Report.

V. CIO REPORT:

Mr. Harper reported that three members of the Investment team -- Mr. Justin Young, Mr. Jonathan Boyd and Mr. Adam Jordan -- had passed the Charted Alternative Investment Analyst ("CAIA") level two exam and obtained the CAIA designation. Mr. Harper provided the quarterly performance update. Mr. Harper noted the equity markets continue to be strongly positive fiscal year to date and that hedge funds and commodities have produced high single digit returns, with bonds returning in the low single digits. Mr. Harper noted that through February 28, 2014, the Fund was up 10.5 percent versus the policy benchmark of 10 percent. Mr. Harper also indicated that the transition to the current fiscal year's asset allocation targets was complete.

Mr. Harper gave an overview of some of the rebalancing and tactical decisions that staff had implemented, including addressing the existing small cap bias in global public equities by reducing approximately $300 million of beta exposure through the synthetic market. Mr. Harper noted that the manner in which Staff implemented this decision (using a physical funding through Russell for 12 basis points, rather than incurring the approximately 90 basis points cost to implement this decision via a synthetic exposure) had resulted in a cost savings of around $2.1 million. Mr. Harper reviewed the asset classes and their performance in greater detail. There was a brief discussion of benchmarks.

Chairman Williams clarified that no alternative asset allocation plan had been submitted and discussion ensued.

Mr. Harper provided an overview of the proposed Annual Investment Plan ("AIP") for fiscal year 2014-15. Mr. Harper outlined some of the changes that had been made to the structure and contents of the AIP. Mr. Harper noted items in the AIP where changes suggested by the Funston report had been made, including RSIC Staff's plan to look for more efficient structures for strategic partnerships, and develop internal research capabilities. Mr. Harper explained that the internal management section had been removed from the proposed AIP while staff works on a more robust operational structure for next year. Mr. Harper noted, however, that the majority of changes proposed were intended to clean up existing language in the document. A discussion ensued regarding certain of the asset class plans and initiatives noted in the AIP. Mr. Harper indicated that RSIC Staff intended to present the Commission with detailed asset class plans in June.

A motion was made by Dr. Gunnlaugsson and seconded by Dr. Wilder to adopt the recommendation of the CIO, approve the proposed AIP as amended and authorize staff to finalize the AIP by making any technical revisions or formatting edits consistent with the action taken by the Commission. The motion was approved by a vote of 5-1, with Chairman Williams, Mr. Giobbe, Dr. Gunnlaugsson, Mr. Gillespie, and Dr. Wilder voting for the motion, and Mr. Loftis opposed.

Mr. Gillespie asked Ms. Monica Houston, Internal Audit & Compliance Officer, to comment on the audit of previous AIPs. Ms. Houston reported that there had been no significant findings.

Mr. Harper provided the Commission with an overview of PENN Capital Management's two existing fixed income mandates. It was noted that RSIC Staff recommended (i) the separation of the investment management contract for the PENN Capital Management ("PENN") Opportunistic High Yield and the PENN Short Duration High Yield strategies, the extension of the PENN Short Duration High Yield investment management agreement to make it coterminous with the PENN Opportunistic High Yield agreement, and (ii) that the Chairman or his designee be authorized to negotiate and execute any necessary documents to implement the separation of the contract and renewal of the PENN Short Duration High Yield contract as approved by the Commission, upon documented approval for legal sufficiency by RSIC Legal Counsel, and upon expiration of the review period, as adopted by the Commission on July 19, 2012 (or as the review period may be amended or superseded by the Commission). There was discussion of the fees associated with the account. Mr. Gillespie made a motion, seconded by Dr. Wilder, to adopt the foregoing recommendation of RSIC Staff regarding PENN's two existing fixed income mandates. The motion was approved unanimously.

VI. AD HOC PLANNING COMMITTEE REPORT:

Dr. Gunnlaugsson began by reviewing a list of ten high level priorities and strategic goals that had been identified as key areas of strategic focus based on the Ad Hoc Planning Committee's review of the Funston report. Dr. Gunnlaugsson stated that from the list there were several action items for the meeting.

Dr. Gunnlaugsson asked Chairman Williams to present the first action item, the draft Statement of Investment Principles, which is intended to guide asset allocation and oversee development of asset class plans. After Chairman Williams' presentation, the Committee's motion was placed before the Commission, to the effect that the Commission should accept (i.e., receive) the draft Statement of Investment Principles, with the understanding that the commissioners would provide feedback to Staff by May 15, 2014, so that the document could be finalized and presented for approval at the June Commission meeting. The Committee's motion was approved by a vote of 4-1, with Chairman Williams, Mr. Giobbe, Dr. Gunnlaugsson and Dr. Wilder voting for the motion, and Mr. Loftis opposed. Mr. Gillespie abstained.

Dr. Gunnlaugsson presented a motion on the behalf of the Ad Hoc Planning Committee to adopt the Committee's recommendations that the Commission (i) eliminate the practice of Commissioner participation in investment manager due diligence except for educational purposes, and (ii) discontinue the informal use of asset class assignments for Commissioners. Discussion ensued regarding the possible effects this change might have on the Commissioners' familiarity with certain asset classes and managers. The motion was approved unanimously.

Dr. Gunnlaugsson presented a motion on behalf of the Ad Hoc Planning Committee's to amend Commission Governance Policy IV (entitled *Commission Operations*) so as to formalize the agenda-setting process already in place; and direct RSIC Staff to make (i) the necessary conforming changes to Commission policies and procedures and (ii) technical and formatting revisions to the Governance Policies. There were some discussion of the best way to set the agenda and whether this would be the best method. The Committee's motion was approved by a vote of 4-2, with Chairman Williams, Mr. Giobbe, Dr. Gunnlaugsson and Dr. Wilder voting for the motion, and Mr. Loftis and Mr. Gillespie opposed.

Dr. Gunnlaugsson presented a motion on behalf of the Ad Hoc Planning Committee to repeal the motion approved by the Commission on July 19, 2012, which stated: "the Commission would not move to a final investment contract unless each Commissioner has a minimum of 30 days to look at all final documents", to apply to all pending and future investments, including renewals. There was discussion of the potential effects of implementing this change, specifically the effects on due diligence. Mr. Gillespie suggested shortening the review period rather than completely eliminating it. After further discussion, Mr. Gillespie made a motion to amend the July 19, 2012 motion by reducing the 30 day review period to three business days. Mr. Loftis seconded the motion, and the Committee's motion, as amended to provide that "the Commission would not move to a final investment contract …unless each Commission has a minimum of <u>three business days</u> to look at all final documents", was then submitted to a vote. The amended motion was approved by a vote of 5-0. Mr. Loftis abstained from the vote.

Dr. Gunnlaugsson presented a motion on behalf of the Ad Hoc Planning Committee to (i) revise Commission Governance Policy III as presented to create a position of Executive Director, accountable to the Commmission for managing the entire organization; and (ii) direct RSIC Staff to make the necessary conforming changes to Commission policies and procedures, as well as technical and formatting revisions to the Governance Policies.

In the ensuing discussion, in response to a request from Dr. Gunnlaugsson and the members of the Ad Hoc Planning Committee, Mr. Robert Feinstein, Chief Legal Officer, provided the commissioners with an overview of the legal framework relating to the RSIC's senior management structure. It was noted that State law accords extensive discretion to the Commission with regard to the structuring of RSIC's senior management, but there are certain statutorily specified roles and responsibilities as to which the Commission and the Chief Investment Officer must directly interface. After extensive discussion, the Commission decided to receive the recommendation of the Planning Committee as information, with the understanding that Commissioners would submit any suggested changes regarding Governance Policy III to the Chairman by May 15, and the Commission would thereafter reconsider this recommendation and take action. No vote was taken.

VII. AUDIT COMMITTEE REPORT:

On behalf of the Audit Committee, Mr. Gillespie presented a motion to adopt those proposed changes to the Audit Committee's Charter that had been presented for the Commission's approval. Mr. Feinstein explained that one set of changes needed to be made to the Audit Committee charter to clarify that the Audit Committee, and not the Compensation Committee, is responsible for setting the compensation of the chief audit officer. Mr. Gillespie also explained the rationale for a second set of changes which would place the Enterprise Risk Management (ERM) function under the Audit Committee's purview. Lastly, it was noted that a set of edits would be needed to (i) reflect the separation of the Audit function, managed by a Chief Audit Officer, from the ERM and Compliance function, managed by a Director of ERM and Compliance and (ii) clarify that the Audit Committee has authority to set the compensation level of both the Chief Audit Officer and the Director of ERM and Compliance. Mr. Gillespie also noted that, effective July 1, 2014, Ms. Monica Houston would be promoted to Chief Audit Officer, and that Mr. Andrew Chernick would assume the position of Director of ERM and Compliance. The Commission instructed RSIC Legal to work on amendments to the Audit Committee Charter and Compensation Policy to reflect the foregoing clarifications. The Commission adopted the Audit Committee's motion that the foregoing proposed revisions to the Audit Committee charter be adopted, as clarified.

VIII. COMPENSATION COMMITTEE REPORT:

On behalf of the Compensation Committee, Mr. Giobbe presented motions to amend the Charter of the Committee so as to (i) encompass and add Human Resources oversight, and amend the name of the Committee to reflect same, and (ii) require that the renamed Human Resources and Compensation Committee annually review the RSIC's implementation of the compensation policy and conduct a new peer compensation study at least every three years. After discussion of the amendments, the Committee's motion was approved unanimously.

IX. AD HOC NOMINATING COMMITTEE REPORT:

Chairman Williams opened the floor to nominations for candidates to serve as the Commission's Chairman for the term beginning July 1, 2014 and ending on June 30, 2016. Dr. Wilder made a motion to nominate Mr. Giobbe as Chairman, Mr. Gillespie seconded, and Mr. Giobbe was elected Chairman by acclamation.

Mr. Giobbe presented the Committee's recommendation to nominate Dr. Rebecca Gunnlaugsson to serve as the Commission's Vice Chairperson for the term beginning July 1, 2014 and ending on June 30, 2016. Chairman Williams opened the floor for any other nominations. None being heard, Dr. Gunnlaugsson was elected by acclamation.

It was noted that with the foregoing actions having been taken, the Ad Hoc Nominating Committee's work was completed and the Committee was disbanded.

X. EXECUTIVE SESSIONTO DISCUSS PERSONNEL MATTERS, AND INVESTMENT MATTERS PURSUANT TO S.C. CODE ANN. SECTIONS §§ 30-4-70(a)(1)-(2), 9-16-80 AND 9-16-320:

Mr. Giobbe made a motion to recede to executive session to discuss personnel matters, receive legal advice and briefings and discuss investment matters pursuant to S.C. Code Ann. §§ 30-4-70(a)(1)-(2), 9-16-80, and 9-16-320, Mr. Gillespie seconded the motion, the motion passed unanimously, and the Commission thereupon receded into executive session.

The Commission reconvened in open session, and Chairman Williams reported that the Commission did not take any reportable action while in executive session. Chairman Williams noted that one vote was taken which will be publicized when doing so would not jeopardize the Commission's ability to achieve its investment objective or implement a portion of the annual investment plan.

XI. Adjournment:

Given no further business on items discussed and no votes taken, the meeting adjourned at 4:57 p.m.

[Staff Note: In compliance with S.C. Code Ann. §30-4-80, public notice of and the agenda for this meeting were delivered to the press and to parties who requested notice and were posted at the entrance, in the lobbies, and near the 15th Floor Conference Room at 1201 Main Street, Columbia, SC, at 2:51 p.m. on April 29, 2014.]

South Carolina Retirement System Investment Commission
Meeting Minutes

June 3, 2014

15th Floor Conference Room
1201 Main Street
Columbia, South Carolina 29201

Commissioners Present:
Mr. Reynolds Williams, Chairman
Mr. Edward Giobbe, Vice Chairman
State Treasurer Curtis M. Loftis, Jr.
Dr. Rebecca Gunnlaugsson
Mr. Allen Gillespie
Dr. Ronald Wilder

Others present for all or a portion of the meeting on Tuesday, June 3, 2014:
Mike Addy, Ashli Aslin, Josh Brade, Geoff Berg, JP Boyd, Corleon Brown, Betsy Burn, Sarah Corbett, Louis Darmstadter, Dori Ditty, Erlinda Doherty, Robert Feinstein, Scott Forrest, Brenda Gadson, Hershel Harper, Monica Houston, Adam Jordan, Eliot Loncar, Doug Lybrand, James Manning, David Phillips, Landry Phillips, Greg Ryberg, Lorrie Smith, Nicole Waites, and Brian Wheeler from the South Carolina Retirement System Investment Commission; Faith Wright and Tammy Nichols from the Public Employee Benefit Authority; Marcus Finney and Robin Johnson from the State Treasurer's Office; M. Sean Cary from Creel Court Reporting; Wayne Pruitt and Donald Tudor from the State Retirees Association of South Carolina.

I. CALL TO ORDER AND CONSENT AGENDA

Chairman Reynolds Williams called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 9:58 a.m. Chairman Williams asked for a motion to adopt the proposed agenda. Dr. Ronald Wilder made a motion, which was seconded by Dr. Rebecca Gunnlaugsson, and passed unanimously, to approve the agenda as presented.

II. REPORT OF THE AD HOC PLANNING COMMITTEE

Dr. Gunnlaugsson began by briefly reviewing d the Ad Hoc Planning Committee's efforts to date. Dr. Gunnlaugsson stated that the Planning Committee was established by the Commission at its March 2014 meeting to review the results of the Funston fiduciary audit and determine how to address issues noted in the Funston audit. The Committee also is charged with developing a strategic plan for the RSIC to divide the issues that need to be addressed into goals, prioritize the goals, and ensure that RSIC Staff maps out the steps to be taken to accomplish each initiative. Dr. Gunnlaugsson stated that prior to the May 1, 2014 Commission meeting, the Planning Committee met several times and discussed the need for RSIC to develop an organizational structure led by an Executive Director. She noted that the Planning Committee had submitted to the Commission at its May 1, 2014 meeting a draft of amendments to Governance Policy III reflecting changes in the senior management structure that had been recommended by Funston, the Commission had established a May 15th deadline for review of those amendments, and on May 16, 2014, the Planning Committee had reconvened, reviewed the comments and feedback, and developed a revised draft policy. Dr. Gunnlaugsson concluded her introductory remarks by noting that a revised draft of Governance Policy III was now being presented for review and approval.

Dr. Gunnlaugsson provided an overview of the proposed changes to Governance Policy ("GP") III. She noted that the existing Governance Policy established both the Chief Investment Officer ("CIO") and Chief Operating Officer ("COO") as executive management roles within the organization. Dr. Gunnlaugsson then noted that the first draft revision to the policy had added the Executive Director ("ED") to the existing structure as a third role. However, taking into consideration comments made during the Commission's May 1 meeting, she explained that the Ad Hoc Planning Committee had removed the COO position and created the ED role. Dr. Gunnlaugsson clarified that while the proposed revisions to GP III would not prohibit the existence of a COO position -- or, for that matter, other executive positions -- the proposed revisions more clearly provided a single point of accountability as the Funston report recommended. Dr. Gunnlaugsson stated that while, under the proposed revisions to GP III, (i) the ED would function as other executive directors, overseeing the entire agency and providing accountability to the Commission, and (ii) the CIO would administratively report to the ED, she stressed that the CIO would continue to have responsibility for managing the trust funds' investments.

Both Dr. Gunnlaugsson and Chairman Williams noted the tremendous amount of feedback that had been received from commissioners, RSIC Staff, HEK, and stakeholders. Chairman Williams commended Dr. Gunnlaugsson on her coordination of the feedback, and thanked RSIC Staff for its assistance.

In response to a question from the Chairman, Mr. Robert Feinstein stated that the proposed revisions to Governance Policy III complied with existing law. Chairman Williams then read the following motion from the Ad Hoc Planning Committee which the Commission was being asked to adopt:

> That the Commission adopt the recommendation of the Planning Committee to amend *Commission Governance Policy III* as presented; and direct RSIC Staff to make (i) the necessary conforming changes for immediate implementation of Governance Policy III, as amended, to other Commission documents, including, but not limited to, the Compensation Policy, Committee Charters; Personnel Policies, Operating Policies, Compliance Policies, the AIP and SIOP; and (ii) technical and formatting revisions to the Governance Policies.

Dr. Wilder commented that while he strongly supports the motion, it was not the Committee's intent to reduce the power of the CIO. The CIO would retain sole authority over investment decisions and continue to have a direct reporting relationship with the Commission.

Mr. Curtis M. Loftis, Jr. expressed his misgivings regarding the immediate implementation of the policy and the lack of a national search to fill the ED position. Chairman Williams clarified that the Commissioners would have an opportunity to discuss personnel matters in executive session, should the Commission approve the motion to amend GP III.

Mr. Allen Gillespie stated that, in his opinion, current law did not allow for the Commission to amend the governance structure as proposed. Mr. Gillespie then read aloud a letter dated May 14, 2014 that he had sent to all commissioners, which he asked to be submitted in its entirety with these minutes, detailing his views. Mr. Gillespie argued in favor of re-establishing the combined Chief Executive Officer ("CEO")/CIO position as the sole direct report to the Commission, with a directive to hire a permanent COO or Managing Director reporting to that CEO/CIO. Mr. Gillespie also stated that he was not aware of any legislative action taken that had amended the law to enable the hiring of an ED.

Mr. Gillespie made a motion to call the question. The motion to call the question failed and discussion continued regarding the recommendations of the Ad Hoc Planning Committee to adopt the proposed changes to GP III.

(A copy of Mr. Gillespie's May 14, 2014 letter has been attached and identified as Exhibit A.)

Vice Chairman Edward N. Giobbe stated that the Funston firm had advised the Commission that it was able to create the new ED position within the current legal framework. Mr. Giobbe then asked Mr. Feinstein to summarize the memorandum he had prepared in response to a request for advice from the Planning Committee regarding the senior management structure. Mr. Feinstein explained in detail the existing legal framework and the substantial amount of discretion it accorded the Commission to manage these types of issues. He noted that since its creation in 2005, the Commission had utilized three different senior management structures, all of which had been found to be compliant with state law. Mr. Feinstein reiterated that the proposed new structure comported with state law and noted that the Funston report concurred with this conclusion.

Mr. Gillespie stated that he did not doubt the proposed changes comported with state law, but maintained that the proposed changes do not address the lack of a single, direct report as recommended by Funston. Dr. Gunnlaugsson noted that Funston did, in fact, find the structure being proposed by the Committee to be a viable solution. Dr. Gunnlaugsson also referred to two points Funston made in its report: (i) that a single direct operating report is leading practice; and (ii) that it would be difficult to find an individual with the skills and qualifications required to fulfill both the ED and CIO roles. Reviewing the proposed duties of the ED, Dr. Gunnlaugsson explained that the ED would oversee the operations and administration of the entire agency, as opposed to the current structure in which the COO and CIO are heads of two different components of the same agency.

Mr. Loftis again expressed his concern that the Commission was going to hire an individual to fill the ED position immediately without a national search. Chairman Williams responded that any matters related to personnel could be raised during the Executive Session, and that implementation of the changes could be delayed if deemed necessary. The Chairman also noted that as the Commission fulfills its fiduciary obligation, it has to be particularly sensitive to having a CIO that has the authority to implement the investment policies selected by the Commission.

Revisiting the discussion about legislative intent, Mr. Greg Ryberg, RSIC's COO, provided historical background concerning the General Assembly's intentions regarding the CIO role when the legislation was proposed and enacted in 2005. Mr. Ryberg stated that it was never the legislature's intent to combine the CIO and CEO roles, but that the Commission was to have the power to hire necessary administrative personnel.

Discussion ensued regarding the Funston report's recommendation of the Commission's role in future due diligence activities. It was noted that the Commission plans on implementing most, if not all, of the Funston recommendations.

Chairman Williams re-read the original motion and a vote was taken. The motion passed by a vote of 4-2, with Chairman Williams, Dr. Gunnlaugsson, Mr. Giobbe and Dr. Wilder voting in favor of the motion, and Mr. Loftis and Mr. Gillespie voting against the motion.

Dr. Gunnlaugsson discussed the Planning Committee's proposed revisions to Governance Policy IV to clarify the agenda setting process, and the Planning Committee's motion to amend *Commission Governance Policy IV* as presented and direct the RSIC staff to make (i) the necessary conforming changes to other Commission Policies and Procedures, and (ii) technical and formatting revisions to the Governance Policies was duly placed before the Commission for consideration. The motion passed by a vote of 5-1, with Mr. Loftis voting against the motion.

III. EXECUTIVE SESSION

Mr. Giobbe made a motion which was seconded by Dr. Gunnlaugsson and passed unanimously, to recede to executive session to discuss personnel matters and receive legal advice and briefings pursuant to S.C. Code Ann., Sections 30-4-70(a)(1)-(2). Chairman Williams announced that the Commission would meet in executive session for the purpose to discuss personnel matters and receive legal advice and briefings. The Commission thereupon receded into executive session.

The Commission reconvened in open session. Chairman Williams made a motion that (i) the Executive Director position, with the roles and responsibilities in accordance with the Commission's Governance Policy III as amended, be filled immediately by Ms. Sarah Corbett; and (ii) based on previously demonstrated skills and talents of Ms. Corbett, approve the selection as Executive Director without additional search and without adjustment to her current salary of $175,000, and without eligibility for performance incentive compensation. The motion was seconded by Dr. Wilder. Chairman Williams remarked on Ms. Corbett's skills, education, and years of experience with the Retirement System and Investment Commission. Chairman Williams stated that Ms. Corbett had outstanding qualifications to assume her new role as Executive Director, and together with the CIO, would function as an effective team to fulfill the mission of the Commission. The motion passed by a vote of 4-2, with Chairman Williams, Dr. Gunnlaugsson, Mr. Giobbe, and Dr. Wilder voting in favor of the motion, and Mr. Loftis and Mr. Gillespie voting against.

Ms. Corbett thanked the Commission for the opportunity to serve in her new capacity, expressed her desire to execute the mission of the organization, and build trust in the organization.

Chairman Williams announced that the next Commission meeting was to be held June 16 and 17, 2014 at the Wampee Conference Center. He noted that the primary function of the meeting was to make progress on the development of the Commission's statement of investment beliefs and the strategic plan. Chairman Williams thanked the Commissioners for their input during the Executive Session.

IV. ADJOURNMENT

There being no further business and upon motion from Chairman Williams, which was seconded by Dr. Gunnlaugsson and passed unanimously, the meeting adjourned at 4:08 p.m.

[Staff Note: In compliance with S.C. Code Ann. §30-4-80, public notice of and the agenda for this meeting were delivered to the press and to parties who requested notice and were posted at the entrance, in the lobbies, and near the 15th Floor Conference Room at 1201 Main Street, Columbia, SC, at 1:10 p.m. on May 27, 2014.]

South Carolina Retirement System Investment Commission
Meeting Minutes

June 16-17, 2014

Wampee Conference Center
1274 Chicora Drive
Pinopolis, South Carolina 29461

Commissioners Present:
Mr. Reynolds Williams, Chairman
Mr. Edward Giobbe, Vice Chairman
State Treasurer Curtis M. Loftis, Jr.
Dr. Rebecca Gunnlaugsson
Mr. Allen Gillespie
Dr. Ronald Wilder
Mr. Travis Turner

Others present for all or a portion of the meeting on June 16-17, 2014:
Ashli Aslin, Geoff Berg, Jonathan Boyd, Betsy Burn, Andrew Chernick, Sarah Corbett, Louis Darmstadter, Dori Ditty, Robert Feinstein, Hershel Harper, Monica Houston, Adam Jordan, Doug Lybrand, James Manning, Bryan Moore, David Phillips, Eric Rovelli, Brian Wheeler, James Wingo, and Justin Young from the South Carolina Retirement System Investment Commission; Clarissa Adams and Robin Johnson from the State Treasurer's Office; Brady O'Connell from Hewitt EnnisKnupp, Inc.; Wayne Pruitt and Donald Tudor from the State Retirees Association of South Carolina; Steve Townes from Ranger Aerospace; Bill McLendon from Perot Aerospace; M. Sean Cary from Creel Court Reporting; Bruce Crouch from Thoughtful Productions; and Blaine Ewing.

I. CALL TO ORDER

Chairman Reynolds Williams called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 10:31 a.m. As there were no prior minutes to review, Chairman Williams asked for a motion to adopt the proposed agenda. Dr. Rebecca Gunnlaugsson made a motion to approve the agenda as presented, which was seconded by Dr. Ronald Wilder, and passed unanimously.

II. INVESTMENT BELIEFS

Mr. Hershel Harper, Chief Investment Officer, began discussion of RSIC's investment beliefs by recalling the Funston Fiduciary Audit Report's recommendations that broader strategic thinking and investment beliefs be incorporated into the Statement of Investment Objectives and Policies ("SIOP"). He reviewed the current mission, vision, and values of RSIC, as well as the SIOP to ensure all Commissioners had a common point of reference. Mr. David Phillips, Deputy Chief Investment Officer, then reviewed a draft of ten investment beliefs and elicited comments from the Commissioners.

Mr. Allen Gillespie raised concerns about the inclusion of bullet one—which appeared to be the organization's larger strategic mission statement—in the investment beliefs. Mr. Gillespie stated that it should be incorporated in a different section. Dr. Wilder requested clarification from Mr. Gillespie about his statements, which Mr. Gillespie provided. Mr. Robert Feinstein, Chief Legal Officer, agreed with Mr. Gillespie stating that the inclusion of that statement could introduce ambiguity about the mission.

Mr. Gillespie made a motion, which was seconded by Dr. Gunnlaugsson, to remove bullet one from the revised draft of investment principles. The motion was passed unanimously.

Discussion continued at length regarding the investment beliefs that should govern the management of the Portfolio. Commissioners referred to the draft beliefs posted on the presentation board and proposed revisions to those investment beliefs based on whether the Commission should assume a longer-term, more strategic view to balance out market volatility or a shorter-term, more tactical approach to realize gains more quickly. Commissioners discussed asset allocation, diversification, and overall risk-adjustment of the Portfolio and decided to continue the discussion on the subsequent day as part of the strategic planning session.

Chairman Williams recessed the meeting for lunch at 12:09 p.m.

Chairman Williams reconvened the meeting at 1:05 p.m.

III. SOUTH CAROLINA PRIVATE EQUITY

Mr. Harper provided context for a presentation on South Carolina private equity, stating that it was meant to be informational only and not an investment recommendation. Mr. Harper noted that a Request for Proposal ("RFP") to research investment opportunities focused on South Carolina had been issued by the Commission several years ago. Mr. Harper stated that the Commission had previously decided this strategy was not a prudent method of investing for the Portfolio as investment decisions should not simply be made based on the geography of the investment opportunity.

Mr. Harper then turned the discussion over to Mr. Gillespie who pointed out some reasons in favor of creating a South Carolina-based private equity program within the Portfolio. Mr. Gillespie provided additional background and explained why he believes a South Carolina private equity program should be established by the Commission. Next, Mr. Gillespie introduced Mr. Steve Townes from Ranger Aerospace, who presented information on the converging of the automotive, aerospace, advanced materials, and related technologies in the Southeastern United States. Mr. Townes explained the current and future impacts of this rapidly-growing sector in South Carolina, and the potential for growth and return on investment. Mr. Townes then introduced Mr. Bill McLendon from Perot Aerospace. Mr. McLendon reiterated Mr. Townes' sentiment and provided information on an investment plan that he believed would generate substantial returns for the Portfolio's beneficiaries and result in economic growth in South Carolina by capitalizing on the momentum of those and other industries that are critical to the state.

Discussion ensued regarding the most prudent manner for RSIC to take advantage of these types of opportunities. Mr. Gillespie raised the possibility of adopting other operational models that would allow for investing in South Carolina private equity. Mr. Harper and Ms. Sarah Corbett, Executive Director, stated that RSIC's current strategic partnership model allows for some investing based on industry, geography, or other niche characteristics. Mr. Harper also described the investment models of other major public pension funds and how RSIC fits into that spectrum of models. Mr. Gillespie requested that as part of the regular asset class plans evaluations, RSIC staff ("Staff") investigate creating an organizational structure that would allow for investing in

South Carolina private equity. Mr. Harper agreed to allocate resources to this research and report back to the Commission.

The Commission briefly recessed for a break at 2:34 p.m.

Chairman Williams reconvened the meeting at 2:51 p.m.

IV. ASSET CLASS PLANS

Mr. Harper began the discussion by describing the relationship between the asset class plans and the Annual Investment Plan, as adopted in April 2014. Mr. Harper then introduced Mr. Justin Young, Investment Analyst, who presented four frameworks through which asset allocation decisions can be made: portfolio construction, capital preservation, correlation and volatility, and the overall business cycle.

Next, Mr. Geoff Berg, Managing Director, delivered a presentation on the benefits of fixed income investments in the Portfolio. Mr. Berg explained that while not high-yielding, conservative fixed income investments help balance out other asset classes that perform poorly during times of equity stress. Mr. Curtis Loftis raised concerns about RSIC's access to its cash reserves and asked whether partnerships pose impediments to that access in the short duration. Messrs. Harper and Berg explained that RSIC's cash liquidity process is standard practice amongst public pension funds and does not present issues for the Portfolio.

Ms. Ashli Aslin, Investment Officer, presented information regarding the role of mixed credit and emerging market debt ("EMD") investments in the Portfolio. These investments are expected to outperform core fixed income investments based on Hewitt EnnisKnupp, Inc.'s ("HEK") research. Currently, mixed credit investments are managed externally through strategic partnerships, direct hedge fund investments, and passive implementation. RSIC is proposing to add one or two multi-sector credit managers to more actively focus on mixed credit investments. Ms. Aslin further explained that the Portfolio's current EMD investments are implemented through a combination of active and passive strategies. Staff is planning to implement a passive strategy, to be complemented by active and opportunistic strategies, which will require the addition of three to four EMD managers.

Mr. Adam Jordan, Director of Strategic Partnerships, continued the asset class discussion by presenting information on the role of private debt in the Portfolio. Similar in structure to private equity, private debt offers the potential for higher returns and reduced risks when compared with some other investment types. Mr. Jordan stated that historically private debt has outperformed the benchmark, and RSIC plans to increase weight in that portfolio to capitalize on that performance. Mr. Jordan noted that Staff and HEK have developed a pacing model to achieve the targeted private debt allocation over the next five years. Like management of the Portfolio's other asset classes, Mr. Jordan emphasized that maintaining balance in this maneuver is key.

Mr. Bryan Moore, Senior Investment Officer, delivered a presentation on RSIC's low beta hedge fund portfolio, which seeks to determine hedge fund managers' skills while incurring lower levels of volatility. Mr. Moore explained that this portfolio is divided into traditional hedge fund strategies and hedge fund seed strategies. Over the next three to five years, RSIC will optimize its portfolio's traditional strategies as they become more liquid. RSIC will also distribute liquidation proceeds to high-performing seed funds or traditional hedge funds. Staff will approach this decision in a disciplined manner that will complement the diversification of the Portfolio.

Mr. Berg next presented information on the Portfolio's global asset allocation. Mr. Berg explained that this asset class has historically been comprised of two main strategies: global tactical asset allocation ("GTAA") and risk parity. Currently, this asset class is equally disbursed amongst GTAA, risk parity, and passive strategies. Mr. Berg stated that RSIC will begin selectively pursuing opportunistic investments and reduce the asset class' passive exposures. The purpose of this shift is to pursue better managers and bring more balance to the asset class.

Mr. Eric Rovelli, Senior Investment Officer, presented information on the real asset portfolio. Mr. Rovelli stated that real assets can offer income and capital appreciation with some partial protection against inflation. Over the next five years, Staff will work to balance the portfolio so that it is comprised equally of both core and non-core assets. Mr. Rovelli further stated that this structure supports diversification and risk management.

Mr. Young reviewed RSIC's commodity portfolio explaining that its returns stem from roll yields of futures and spot price increases. While a very volatile asset class, which RSIC needs to mitigate in other areas, commodities do offer potential diversification benefits, especially in later parts of the business cycle. Messrs. Harper and Young summarized the strategies that RSIC has and will employ going forward to hedge inflation and derive returns, including allocating to broader benchmarks as opposed to focusing on a few specific commodities.

Mr. Moore continued the asset class discussion with a presentation on RSIC's global public equity assets, which comprise 31 percent of the Portfolio. Updating the Commission on the status of this asset class, Mr. Moore reported that Staff had successfully transitioned $2 billion of synthetic exposure to physical exposure, is currently searching for two to three more managers, and is rebalancing this asset class to maintain appropriate diversification. In addition, Mr. Moore stated that RSIC will be implementing an enhanced indexing strategy, which will reduce fees.

V. PRIVATE EQUITY

Mr. Louis Darmstadter opened his presentation on the private equity portfolio by providing information on its recent performance, which amounted to a 13.6 percent rate of return through the end of Fiscal Year 2013. With 25 active managers, private equity was the only asset class that exceeded the actuarial rate of return of 7.5 percent. Demonstrating quarter-over-quarter improvement over the year, RSIC's private equity program would be considered successful by most commonly used measures, reported Mr. Darmstadter. It is an asset class that is best evaluated over the long term, and Staff expect it to generate above average returns.

VI. EXECUTIVE SESSION

Chairman Williams made a motion, which was unanimously passed, to recede to Executive Session to discuss investment matters and legal matters, pursuant to S.C. Code Ann. §§9-16-80 and 9-16-320. After a brief break, the Commission receded into executive session at 4:50 p.m.

The Commission reconvened in open session at 5:28 p.m. The Chairman reported that the Commission did not take any reportable action while in executive session, but they discussed investment matters and received a legal briefing.

The meeting recessed at 5:29 p.m., to reconvene at 8:30 a.m. on Tuesday, June 17, 2014.

VII. CALL TO ORDER

Chairman Reynolds Williams called the meeting of the South Carolina Retirement System Investment Commission ("Commission") to order at 8:40 a.m.

VIII. STRATEGIC PLAN

Ms. Sarah Corbett began discussion of the strategic plan by providing context on the plan's most recent versions, which were adopted in 2009 to 2012. The Commission has not had a strategic plan since then, hence the need to collaborate and develop consensus on the overarching goals of the organization. After presenting the proposed strategic goals, Ms. Corbett asked Commissioners to refer to a summary of input provided by RSIC staff during a meeting held in early June and the Funston fiduciary audit report recommendations. In order to drive discussion, she also reviewed the results of a survey given previously to Commissioners in which they ranked RSIC issues based on priority.

Issues of particular import raised during the discussion of strategic goals were:

A. Execute major investment portfolio initiatives designed to meet the actuarial rate of return and exceed the policy benchmark while maintaining a prudent level of risk;
B. Build trust and confidence in the organization at the Commission level and with broader stakeholder groups by improving assurance and reassurance and clearly communicating investment beliefs, strategies, and performance;
C. Enhance the Commissioners' focus on strategy and oversight;
D. Advocate and educate the General Assembly regarding the alignment of fiduciary duties and responsibilities, and improve custodian relationships;
E. Develop, implement, and maintain robust technology systems and processes to provide timely, relevant, and accurate data upon which to make prudent investment decisions to appropriately monitor investment actions; and
F. Develop, implement, and maintain human resource practices that support the investment strategy and objectives of RSIC and encourage, empower, and direct staff to achieve Commission goals.

Upon conclusion of the discussion, the Commission agreed to accept the proposed strategic goals. Ms. Corbett and Mr. Hershel Harper stated that RSIC staff would develop the underlying tasks required to achieve the goals and present them at the next Commission meeting.

IX. COMMISSION EVALUATION

Chairman Reynolds Williams presented a summary of the results of the Commission Evaluation from Fiscal Year 2013 in which Commissioners rated the Commission's performance using various criteria based on a scale of 1 (the highest score) to 4 (the lowest score). The overall average grade for the Commission was 2.89, the median was 2.93.

The area with the highest score of 3.66 related to the following criteria:

A. Ensuring staff provides new Commissioner information with prompt and thorough orientation;
B. The Commission members understand their fiduciary responsibilities related to membership on the Commission; and
C. The issues and matters presented for Commission review and decision-making are appropriate work for the Commission.

The area with the lowest score of 2.14 related to the following criteria:

A. The Commission meets with sufficient frequency and duration to conduct the affairs of the agency appropriately;

B. The Commission has achieved the goals and objectives it set out to accomplish during the past year; and
C. The Commission engages in long-term strategic thinking and planning.

Chairman Williams provided the Commissioners with a compilation of comments received as a part of the Commission Evaluation.

X. AUDIT COMMITTEE REPORT

Mr. Allen Gillespie gave a brief update on the Audit Committee's activities since the prior Commission meeting. Mr. Gillespie reported that the current audit was in process, the annual investment report field work was completed, and the information technology risk assessment was completed and a report was being drafted by Deloitte and Touche. Development of the 2014-2015 risk assessment and audit completion plan was postponed until after the strategic planning meeting to ensure these plans were consistent with overarching goals.

XI. ENTERPRISE RISK MANAGEMENT UPDATE

Mr. Andrew Chernick gave a presentation on RSIC's new enterprise risk management ("ERM") program, which was created on April 1, 2014 by the Audit Committee, in response to the Funston fiduciary audit report recommendations. Mr. Chernick defined ERM as efforts to identify, manage, and mitigate risk in the achievement of RSIC's goals. In addition to the operational risks Mr. Chernick identified in his presentation, he solicited input from Commissioners regarding types of risk about which they were most concerned. Commissioners raised concerns on risk pertaining to politics, personnel issues, IT management, budget, and legal issues. Mr. Chernick noted the importance of communicating these risks to all staff and the Commission, maintaining proper documentation of efforts to address the risks, and inclusion of ERM activities in the strategic plan. Mr. Chernick also requested that the Commission be actively involved in the enterprise risk monitoring process so that ERM is nimble and able to meet the needs of Commissioners.

XII. HUMAN RESOURCES AND COMPENSATION COMMITTEE REPORT

Mr. Giobbe discussed the Compensation Policy issues that were addressed in the May 19, 2014 meeting to include Funston's recommendation to review RSIC's Compensation Policy and to conduct a new peer compensation study at least every three years. Mr. Giobbe noted that the Human Resources and Compensation Committee ("HRC Committee") will ensure that actual individual Performance Incentive Compensation payments ("PIC") are subject to an individual assessment in accordance with the Compensation Policy for FYE 2014 before PIC is paid to eligible staff. Mr. Giobbe added that the HRC Committee will focus on this topic in upcoming meetings as part of its commitment to the House Ways and Means Committee. Mr. Giobbe presented the recommendation from the Human Resources and Compensation Committee to approve the issuance of a Request for Proposals ("RFP") in accordance with the scope of work as outlined and posted on Watchdox. The motion was approved unanimously.

XIII. INVESTMENT REPORT

Mr. Harper requested that RSIC staff have time to combine all recommendations and suggestions from the investment belief session held the day prior and circulate a third draft to Commissioners for comment and review. Mr. Harper provided an update on the process and legal issues surrounding the transition of the global equity portfolio to its new manager. Reporting on the 2013-2014 Annual Investment Plan, Mr. Harper stated that progress continued to be made on all objectives including those related to hedge fund, global equity, and global fixed income portfolios. Staff is also in the process of filling four FTE positions in the private equity, credit and research areas. Mr. Harper also noted that research was being done on potential outsourcing solutions due to the high number of managers covered by investment staff. Mr. Harper concluded the report by announcing that estimated plan performance through May 2014 was up 14.5% and the policy return was up 13.5%.

XIV. PERFORMANCE UPDATE

Mr. Phillips reported on the performance of the Plan through March 2014, which resulted in returns of 11.2% versus policy of 10.74%. Net benefit payments were just over $750 million. With estimates for May and June basis points factored in, Mr. Phillips posited that fiscal year performance expectations to date would be 14.99%. Mr. Phillips announced that Plan value exceeded $29 billion for the first time since the Fund's creation. Commissioners inquired about the established risk limit and how that exposure could affect fund performance. Messrs. Harper and Phillips explained that the risk limit is self-imposed, and can be revisited, but is established to reduce exposure of the Fund.

XV. INTEGRITY CONSENT

Mr. Harper gave a brief update of the Integrity Asset Management ("Integrity") which was previously purchased by Munder Capital Management and its parent company, Munder Capital Holdings, LLC and has recently entered into a purchase agreement with Victory Asset Management ("Victory"). While Integrity will continue to manage the assets, ownership will lie with Victory. This transfer of ownership will require an assignment of the investment management agreement under the Investment Advisors Act. Mr. Harper noted that Staff continues to believe that the team managing the assets with Integrity is a strong team and the change in ownership structure does not negatively impact Staff's view of the manager. Mr. Gillespie proposed a motion to adopt the recommendation of the CIO and RSIC Staff to consent to the assignment of the investment management agreement with Integrity Asset Management to Victory Capital Management, to permit the Integrity management team to continue managing the U.S. Small Cap Value portfolio, and to authorize the Chairman or his designee to execute any necessary documents to implement the decision as approved by the Commission. Dr. Wilder seconded the motion, which was unanimously approved.

XVI. HEK SERVICE PROVIDER REVIEW

Ms. Ashli Aslin provided historical context on the contractual relationship with Hewitt EnnisKnupp, Inc. ("HEK"), RSIC's general investment consultant for the past eighteen months. Ms. Aslin noted that HEK's performance as a service provider will be monitored on an ongoing basis, with reports to the Commission provided at least annually. HEK is required to provide investment manager composite and plan specific reports, including an annual report to the Commission. Ms. Aslin reported that HEK is meeting its contractual obligations and providing the research and analysis as required.

XVII. ADJOURNMENT

There being no further business and upon unanimous consent, Chairman Williams announced that the Commission meeting was adjourned at 11:37 am.

[Staff Note: In compliance with S.C. Code Ann. §30-4-80, public notice of and the agenda for this meeting were delivered to the press and to parties who requested notice and were posted at 9:28 a.m. on June 13, 2014.]

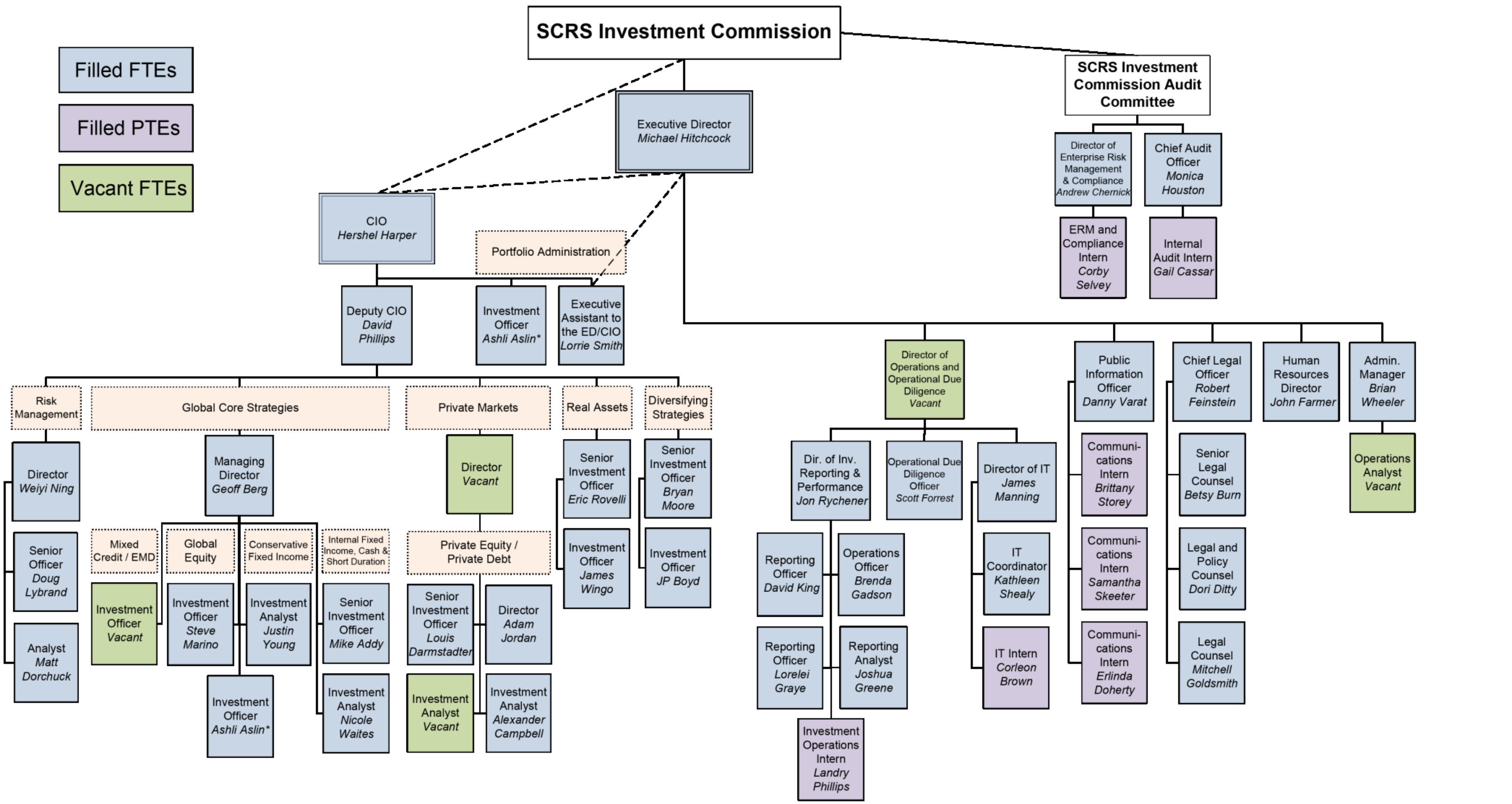
Retirement System Investment Commission

Budget Request 2015-2016

RSIC

SC Retirement System Investment Commission

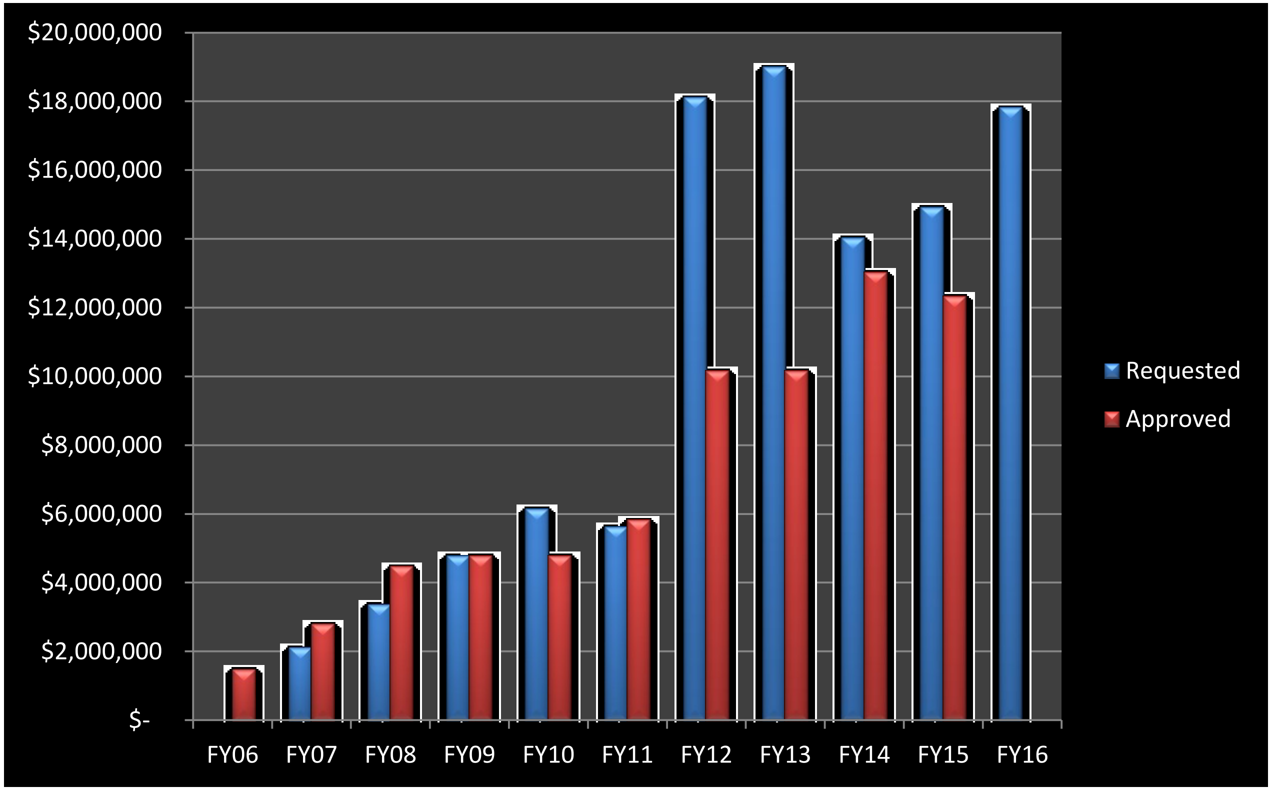
Org Chart



Filled FTEs
Filled PTEs
Vacant FTEs
SCRS Investment Commission
SCRS Investment Commission Audit Committee
Executive Director Michael Hitchcock
Director of Enterprise Risk Management & Compliance Andrew Chernick
Chief Audit Officer Monica Houston
ERM and Compliance Intern Corby Selvey
Internal Audit Intern Gail Cassar
CIO Hershel Harper
Portfolio Administration
Deputy CIO David Phillips
Investment Officer Ashli Aslin*
Executive Assistant to the ED/CIO Lorrie Smith
Risk Management
Global Core Strategies
Private Markets
Real Assets
Diversifying Strategies
Director Weiyi Ning
Senior Officer Doug Lybrand
Analyst Matt Dorchuck
Managing Director Geoff Berg
Mixed Credit / EMD
Global Equity
Conservative Fixed Income
Internal Fixed Income, Cash & Short Duration
Investment Officer Vacant
Investment Officer Steve Marino
Investment Analyst Justin Young
Senior Investment Officer Mike Addy
Investment Officer Ashli Aslin*
Investment Analyst Nicole Waites
Director Vacant
Private Equity / Private Debt
Senior Investment Officer Louis Darmstadter
Director Adam Jordan
Investment Analyst Vacant
Investment Analyst Alexander Campbell
Senior Investment Officer Eric Rovelli
Investment Officer James Wingo
Senior Investment Officer Bryan Moore
Investment Officer JP Boyd
Director of Operations and Operational Due Diligence Vacant
Dir. of Inv. Reporting & Performance Jon Rychener
Operational Due Diligence Officer Scott Forrest
Director of IT James Manning
Reporting Officer David King
Operations Officer Brenda Gadson
Reporting Officer Lorelei Graye
Reporting Analyst Joshua Greene
Investment Operations Intern Landry Phillips
IT Coordinator Kathleen Shealy
IT Intern Corleon Brown
Public Information Officer Danny Varat
Communi-cations Intern Brittany Storey
Communi-cations Intern Samantha Skeeter
Communi-cations Intern Erlinda Doherty
Chief Legal Officer Robert Feinstein
Senior Legal Counsel Betsy Burn
Legal and Policy Counsel Dori Ditty
Legal Counsel Mitchell Goldsmith
Human Resources Director John Farmer
Admin. Manager Brian Wheeler
Operations Analyst Vacant

Appropriations History

- RSIC is solely Other Funds.



SC Retirement System Investment Commission

RSIC FY 14-15 Current Funding

Total Budget
(Other Funds)
$13,021,374

Personal Services:
$6,074,739

Employer Contributions:
$1,596,835

Other Operating Expenses: $4,649,800

RSIC FY 15-16 Budget Request

Total Budget
(Other Funds)
$17,809,132

Personal Services:
$9,409,244

Employer Contributions:
$2,054,520

Other Operating Expenses: $6,345,369

Breakdown for FY 15-16

- **Personal Service: $9,409,244.00**
  - Commissioners: $100,000.00
  - Unclassified Positions: $6,330,000.00
  - Other Personal Service: $2,979,244.00
    - Temporary Positions and Other: $424,400.00
    - Incentive Comp (PIC): $2,554,843.00
- **Other Operating: $6,345,369.00**
- **Employee Benefit (Employer Contributions): $2,054,520.00**

- **Total: $17,809,132.00**

RSIC

SC Retirement System Investment Commission

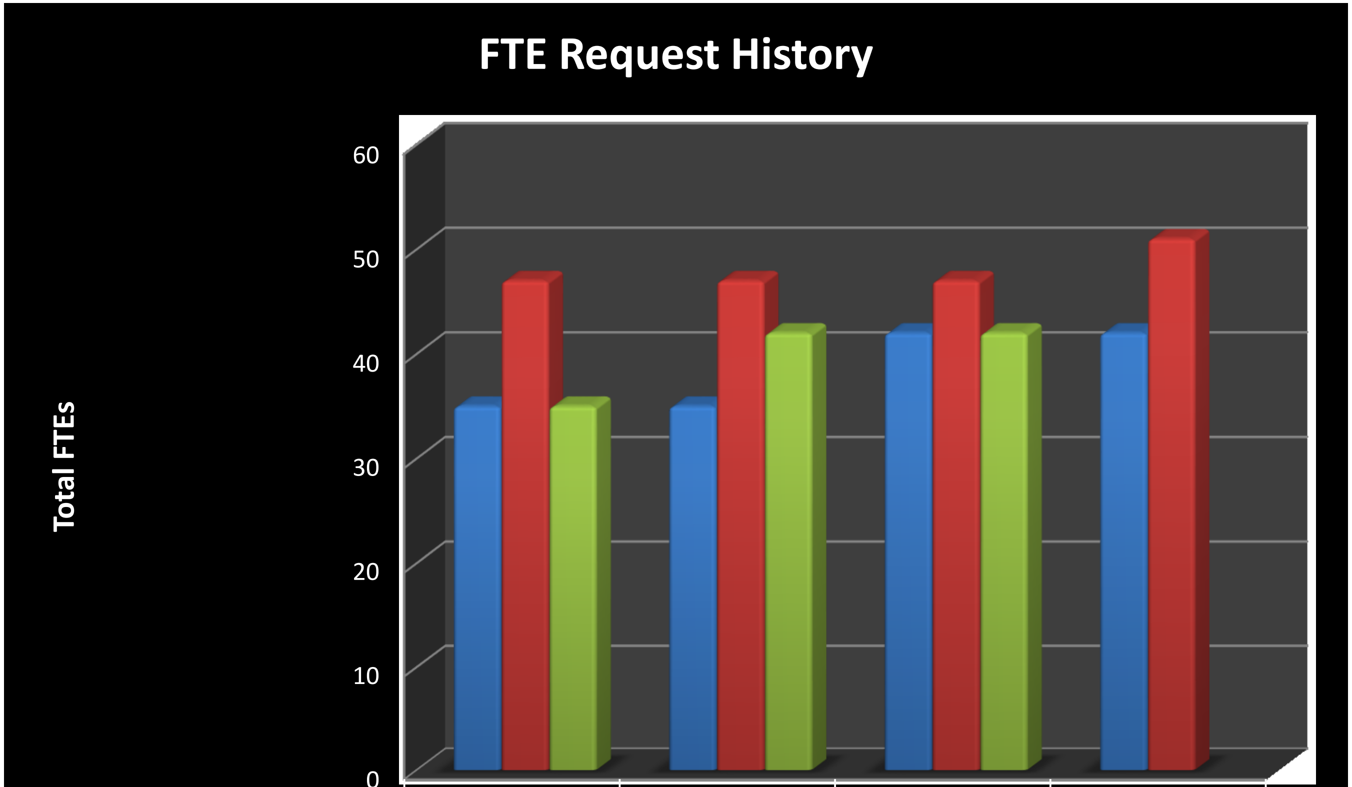
Additional Details-Operating

- Continue acquiring needed reporting and back office systems:
  - Improve investment management capabilities
  - Acquire additional capabilities similar to peers
  - Continue addressing Funston recommendations
  - System requests—generally consistent with level "requested" in prior fiscal year:
  - Ancillary systems/services: Administrator, Risk System
  - Continue to rely on PEBA for primary IT outsourcing
- Includes new FTE overhead per person (supplies and equipment, travel, etc.)
  - Plan to engage a consultant to update Compensation Study and review Commission's Compensation Policy and PIC Plan
- Expect general inflationary increases
- Modest increase in rent

Open FTE Status

- Credit Strategies Officer – Posting Closed August 30th, Phone Interviews are being set/conducted
- Private Markets Officer – Posting Closed August 30th, Phone Interviews conducted, in-person interviews being scheduled
- Director of Private Markets – Posting Closed August 30th, Phone Interviews conducted, in-person interviews being scheduled
- Director of Operations & Due Diligence – Hired on September 25, 2014
- Operations Analyst– Posting Closed August 30th, in-person interviews being conducted

FTEs



	FY13	FY14	FY15	FY16
Approved FTEs Prior FY	35	35	42	42
Prior FY Approved + Request	47	47	47	51
FY Approved FTEs	35	42	42	

9 New FTE Positions– FY '16

- **Senior Investment Officers (3)**
- **Investment Analyst**
- **Senior IT Applications Developer**
- **Reporting Performance Officer**
- **Human Resources Coordinator**
- **Legal Assistant/Paralegal**
- **Internal Audit Senior Consultant**

Additional Details-Investment Positions

Senior Private Markets Officer

- Aid in the development and implementation of the private markets program.
- Daily oversight for sourcing, assessing, and monitoring managers.
- The Senior Officer is expected to be a valuable contributor to the investment decision-making process and strategic asset class plan initiatives.
- Senior Officers have higher-level investment experience (10+ years).

Senior Diversifying Strategies Officer

- Aid in the development and implementation of the hedge fund and global tactical allocation program.
- Daily oversight for sourcing, assessing, and monitoring managers.
- The Senior Officer is expected to be a valuable contributor to the investment decision-making process and strategic asset class plan initiatives.
- Senior Officers have higher-level investment experience (10+ years).

Senior Real Estate Officer

- Aid in the development and implementation of the real estate program.
- Daily oversight for sourcing, assessing, and monitoring managers.
- The Senior Officer is expected to be a valuable contributor to the investment decision-making process and strategic asset class plan initiatives.
- Senior Officers have higher-level investment experience (10+ years).

General Investment Analyst

- The Investment Analyst will be responsible for assisting with asset class research, conducting due diligence and research on investment managers and strategies, and other projects, as requested.
- The analyst is expected to be a valuable contributor to the investment decision-making process and strategic asset class plan initiatives.
- The analyst will have 0-3 years of experience.

Additional Details-Operations Positions

Senior IT Applications Developer

- Assist IT Director with the integration of new reporting, analytics, risk systems and data warehouse capabilities
- Provide day-to-day support of technology needs for investment and operations staff
- Address programming needs of investment and operations staff for ad hoc and ongoing projects

Internal Audit Senior Consultant

- Plan and perform financial, operational, and compliance related audits and/or reviews with minimal supervision.
- Perform walkthroughs of complex business processes and test the design and effectiveness of internal controls throughout the organization
- Document work and prepare observations and recommendations for corrective action and utilize and reference best practice audit tools and methodologies.
- Proactively communicate audit status and observations to audit management to ensure achievement of objectives.

Reporting Performance Officer: Fee Reporting Oversight

- Provide oversight of the Administrator's collection and validation of fees.
- Expand and refine current process for collecting manager fees.
- Ensure population and completeness in data repository.
- Work with Administrator to refine models to accommodate changing customs.
- Inventory, summarize, and group Investment Management Agreements or similar agreements for comparative purposes.
- Verify reasonableness and alignment with industry standard
- Verify with RSIC Investment Team that fees paid are reasonable according to terms.
- Analyze fee structures and assess reasonableness with industry standards.
- Serve as resource during due diligence to assess reasonableness of proposed fee structure.

Additional Details-Operations Positions

Legal Administrative Assistance/Paralegal

- Provide an array of administrative and support services for RSIC's four lawyers and senior management, including:
  - Assistance with maintenance of hard copy and electronic files.
  - Assistance with conversion of historical hard copy records to electronic records
  - Assistance with maintenance of departmental calendars, tracking data bases, logs, etc.
  - Assistance with special projects (litigation support, group trust name change project, etc.)
- RSIC had a full time temporary employee providing this service during the period commencing late 2011 and ending in 2013. While the agency's intern pool has been available from time to time to provide limited assistance, RSIC Legal needs a dedicated resource to provide ongoing administrative and support services.

Human Resources Coordinator

- Schedules college recruiting fairs and attends, along with appropriate staff, to identify qualified intern and job applicants.
- Posts open positions and corresponds with job applicants to notify them of next steps.
- Arranges interview times, and as needed travel and lodging, for applicants.
- Provide initial telephone interview/screening to obtain work history, education, training, related job skills, salary requirements, etc. in order to refer qualified applicants to hiring manager for further consideration.
- Maintains records and files on recruiting activity and other HR/employee information. Reports EEO and other data as required.
- Conducts new hire orientations and enters new hire data into appropriate systems.
- Maintains organization charts and employee directory as well as personnel and other employee files.
- Coordinates and schedules training activity/events in support of training initiatives and career development plans as well as tracks/records training history information. Researches training program options to identify appropriate content and cost.
- Prepares and distributes training materials as needed.

Provisos

- **PROPOSED**. (GP: Administrator Retention) Of the funds authorized to RSIC, up to 25% of the annual amount invoiced for its administrator system may be retained for the purpose of ensuring the performance of the administrator. The retained funds must be held by the agency until the verification of satisfactory performance. All undistributed funds in the Investment Commission's retainage account will be carried forward to the next Fiscal Year.

Performance Update

RSIC Internal Reporting

October 2, 2014

RSIC

SC Retirement System Investment Commission

Performance – Capital Markets

As of June 30, 2014

Market Performance	Month	3 Month	YTD	FYTD	2 Years	3 Years	5 Years
80% R3000 / 20% EAFE + 300 Bps 3-month lag	0.67%	2.61%	12.13%	**24.64%**	20.74%	16.16%	23.82%
MSCI All-Country World Index Net	1.88%	5.04%	6.18%	**22.95%**	19.72%	10.25%	14.28%
50% MSCI World / 50% S&P/Citi WGBI	1.30%	3.56%	5.64%	**15.26%**	10.81%	6.82%	9.42%
NCREIF ODCE Index 75 Bps	2.50%	2.64%	5.98%	**14.52%**	13.02%	13.81%	8.07%
HFRI Fund weighted Composite Index	1.29%	2.01%	3.15%	**9.06%**	8.48%	4.02%	6.49%
Bloomberg Commodity Index	0.60%	0.08%	7.08%	**8.21%**	-0.23%	-5.17%	1.99%
50% JPM EMBI USD / 50% JPM GBIEM Local	0.68%	4.39%	7.35%	**7.75%**	4.44%	4.31%	8.93%
1/3 BC U.S. HY 1/3 S&P/LSTA Lev. Loan and 1/3 BC MBS	0.56%	2.07%	4.03%	**7.30%**	6.22%	5.91%	8.84%
S&P/LSTA Lev. Loan + 150 Bps 3-month lag	0.51%	1.69%	3.63%	**5.85%**	7.61%	6.51%	14.03%
BC Global Agg Bond Index (Hedged)	0.34%	2.01%	4.08%	**5.17%**	3.42%	4.50%	4.64%
BC US Agg Bond Index	0.05%	2.04%	3.93%	**4.37%**	1.81%	3.66%	4.85%
BC 1-3 Year Gov./Credit Index	-0.05%	0.33%	0.56%	**1.14%**	0.94%	1.00%	1.73%
Merrill Lynch 3-Month T-Bill	-0.03%	0.20%	0.31%	**0.57%**	0.43%	0.49%	0.91%

Performance – Plan and Asset Class (As Reported)[1]

As of June 30, 2014

Executive Summary	Mkt Val	Month	3 Month	YTD	FYTD	2 Years	3 Years	5 Years
TOTAL PLAN (Net of Fees)	**$29,802**	**1.22%**	**3.67%**	**5.96%**	**15.29%**	**12.61%**	**8.37%**	**11.48%**
POLICY BENCHMARK		*1.14%*	*3.18%*	*5.73%*	*14.26%*	*11.16%*	*7.51%*	*9.98%*
Relative Performance		0.08%	0.49%	0.23%	1.03%	1.45%	0.86%	1.50%
Cumulative Benefit Payments (Net)2		*($61)*	*($276)*	*($535)*	*($1,044)*	*($2,011)*	*($3,057)*	*($4,853)*

Active Managers Performance	Mkt Val	Month	3 Month	YTD	Fiscal Year	2 Years	3 Years	5 Years
TOTAL PLAN	**$29,802**	**1.22%**	**3.67%**	**5.96%**	**15.29%**	**12.61%**	**8.37%**	**11.48%**
POLICY BENCHMARK		*1.14%*	*3.18%*	*5.73%*	*14.26%*	*11.16%*	*7.51%*	*9.98%*
Private Equity	$2,667	1.18%	5.62%	11.07%	21.69%	19.00%	14.10%	14.94%
Global Public Equity	$6,450	2.97%	4.22%	4.56%	20.26%	17.52%	7.55%	15.38%
Real Estate	$1,081	0.35%	4.75%	8.63%	20.10%	18.79%	13.26%	11.39%
Private Debt	$1,684	1.00%	2.84%	6.43%	15.07%	15.52%	10.58%	14.10%
GTAA	$2,119	0.92%	4.55%	7.52%	14.41%	9.50%	9.10%	11.77%
HF (Low Beta)	$2,482	1.27%	3.15%	5.36%	13.27%			
Mixed Credit	$1,950	0.76%	1.96%	4.61%	9.99%	9.63%	6.51%	12.15%
Global Fixed Income	$1,104	0.73%	3.30%	5.90%	8.61%	5.24%	4.31%	8.19%
EM Debt	$1,261	0.78%	4.77%	7.65%	6.98%	4.44%	3.20%	8.15%
Core Fixed Income	$2,580	0.15%	2.11%	3.85%	4.43%	2.27%	4.01%	5.69%
Short Duration	$3,113	0.02%	0.36%	0.63%	1.68%	1.54%	1.67%	
Cash	$2,205	-0.07%	-0.09%	-0.16%	-0.21%	0.14%	-0.26%	0.08%

RSIC
SC Retirement System Investment Commission

Performance – Plan and Asset Class (Adjusted)*

As of June 30, 2014

Blended Performance	Mkt Val	Month	3 Month	YTD	Fiscal Year	3 Years	5 Years
TOTAL PLAN	**$29,802**	**1.22%**	**3.67%**	**5.96%**	**15.29%**	**8.37%**	**11.48%**
POLICY BENCHMARK		*1.14%*	*3.18%*	*5.73%*	*14.26%*	*7.51%*	*9.98%*
Global Public Equity	$9,187	3.07%	5.48%	6.12%	23.03%	10.40%	15.41%
Private Equity	$2,667	1.18%	5.62%	11.07%	21.69%	14.10%	14.94%
Real Estate	$1,081	0.35%	4.75%	8.63%	20.10%	15.98%	13.20%
Private Debt	$1,684	1.00%	2.84%	6.43%	15.07%	10.58%	14.10%
GTAA	$3,162	0.99%	4.18%	6.68%	14.54%	9.30%	11.90%
HF (Low Beta)	$2,482	1.27%	3.15%	5.36%	13.27%		
Mixed Credit	$1,950	0.76%	1.96%	4.61%	9.99%	6.51%	12.15%
Commodities	$639	1.34%	1.12%	7.89%	8.72%		
Global Fixed Income	$1,104	0.73%	3.30%	5.90%	8.61%	4.31%	8.19%
EM Debt	$1,261	0.78%	4.86%	7.86%	7.63%	4.04%	8.25%
Core Fixed Income	$2,580	0.15%	2.11%	3.85%	4.43%	4.01%	5.69%
Short Duration	$3,113	0.02%	0.36%	0.63%	1.68%	1.67%	
Cash[3]	$3,311	0.01%	0.01%	0.02%	0.05%	0.07%	0.11%

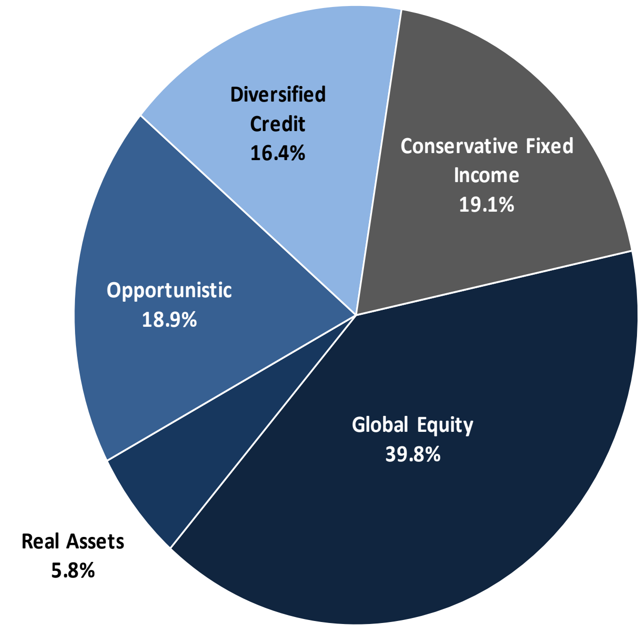
Net Overlay Financing[4]	-$4,419	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%

*Highlighted categories include Overlay allocations.

Portfolio Exposure

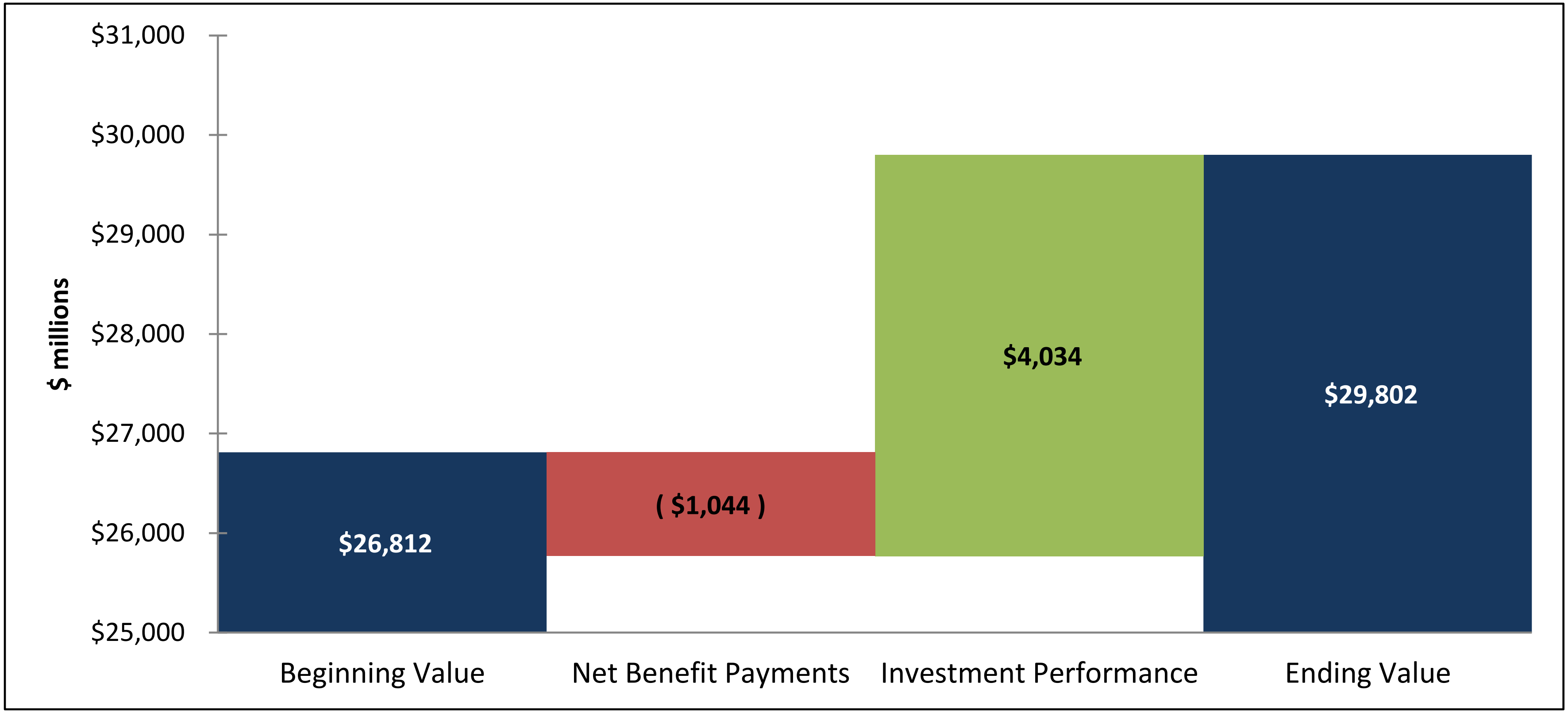
As of June 30, 2014

Estimated Allocation / Exposure	Portfolio Exposure	Target Allocation	Difference
Global Equity	**39.8%**	**40.0%**	**-0.2%**
Global Public Equity	30.8%	31.0%	-0.2%
Private Equity	8.9%	9.0%	-0.1%
Real Assets	**5.8%**	**8.0%**	**-2.2%**
Real Estate	3.6%	5.0%	-1.4%
Commodity	2.1%	3.0%	-0.9%
Opportunistic	**18.9%**	**18.0%**	**0.9%**
GTAA	10.6%	10.0%	0.6%
HF (Low Beta)	8.3%	8.0%	0.3%
Diversified Credit	**16.4%**	**19.0%**	**-2.6%**
Mixed Credit	6.5%	6.0%	0.5%
Emerging Markets Debt	4.2%	6.0%	-1.8%
Private Debt	5.7%	7.0%	-1.3%
Conservative Fixed Income	**19.1%**	**15.0%**	**4.1%**
Core Fixed Income	8.7%	7.0%	1.7%
Global Fixed Income	3.7%	3.0%	0.7%
Cash and Short Duration (Net of Overlay)	6.7%	5.0%	1.7%
Cash and Short Duration (Gross of Overlay)	21.6%		

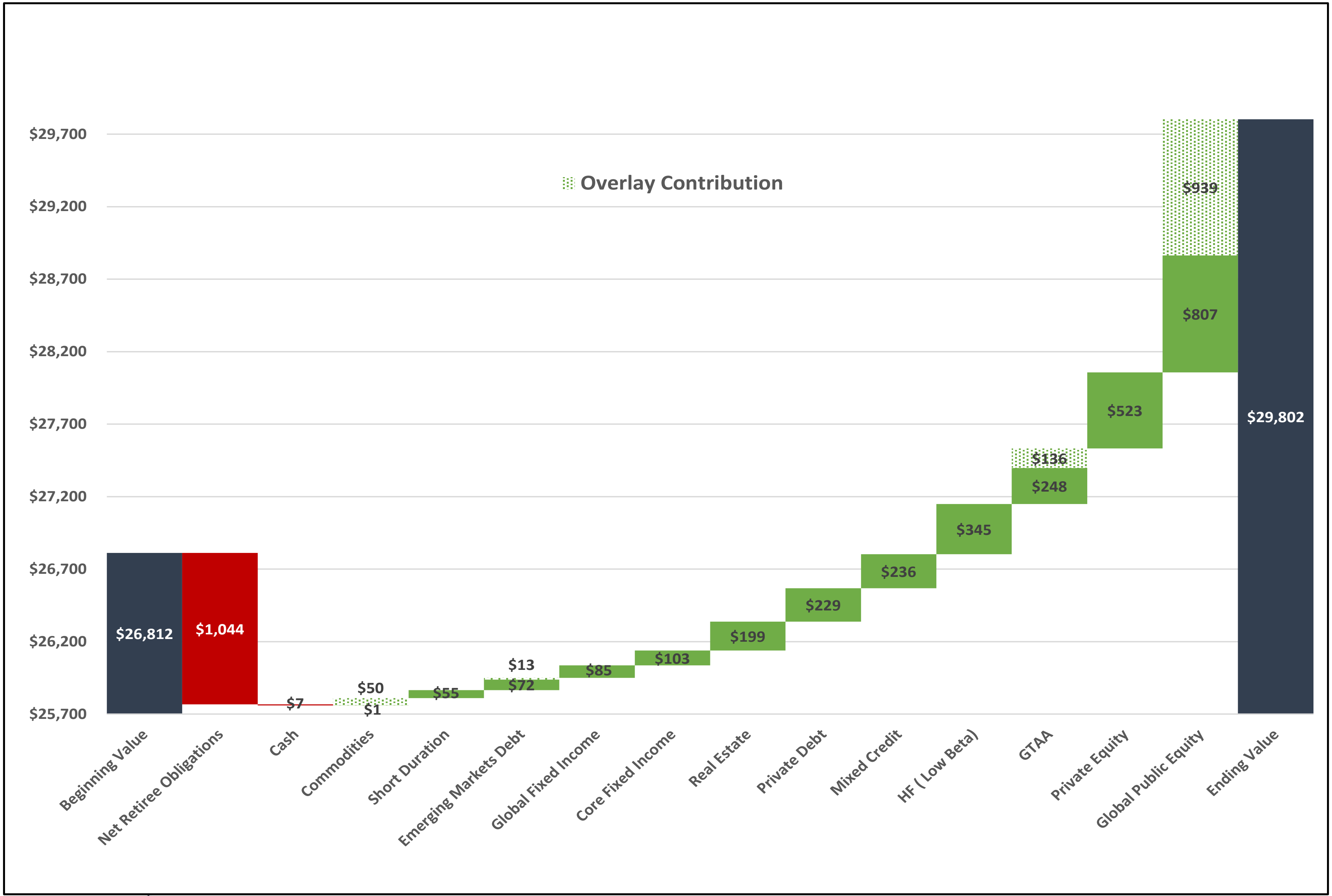


Fiscal YTD Benefits & Performance

As of June 30, 2014

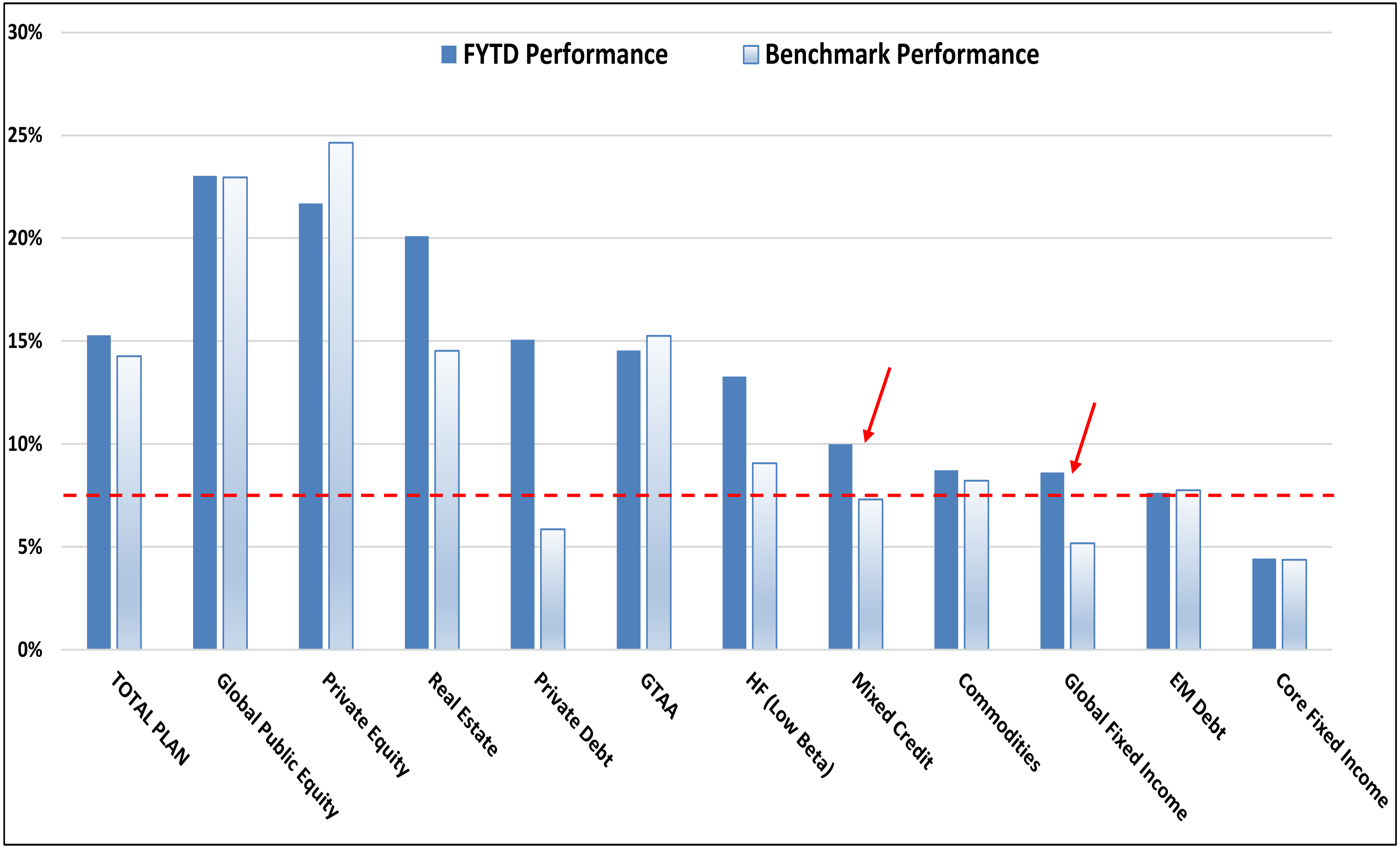


Fiscal Year 2014 Contribution by Asset Class



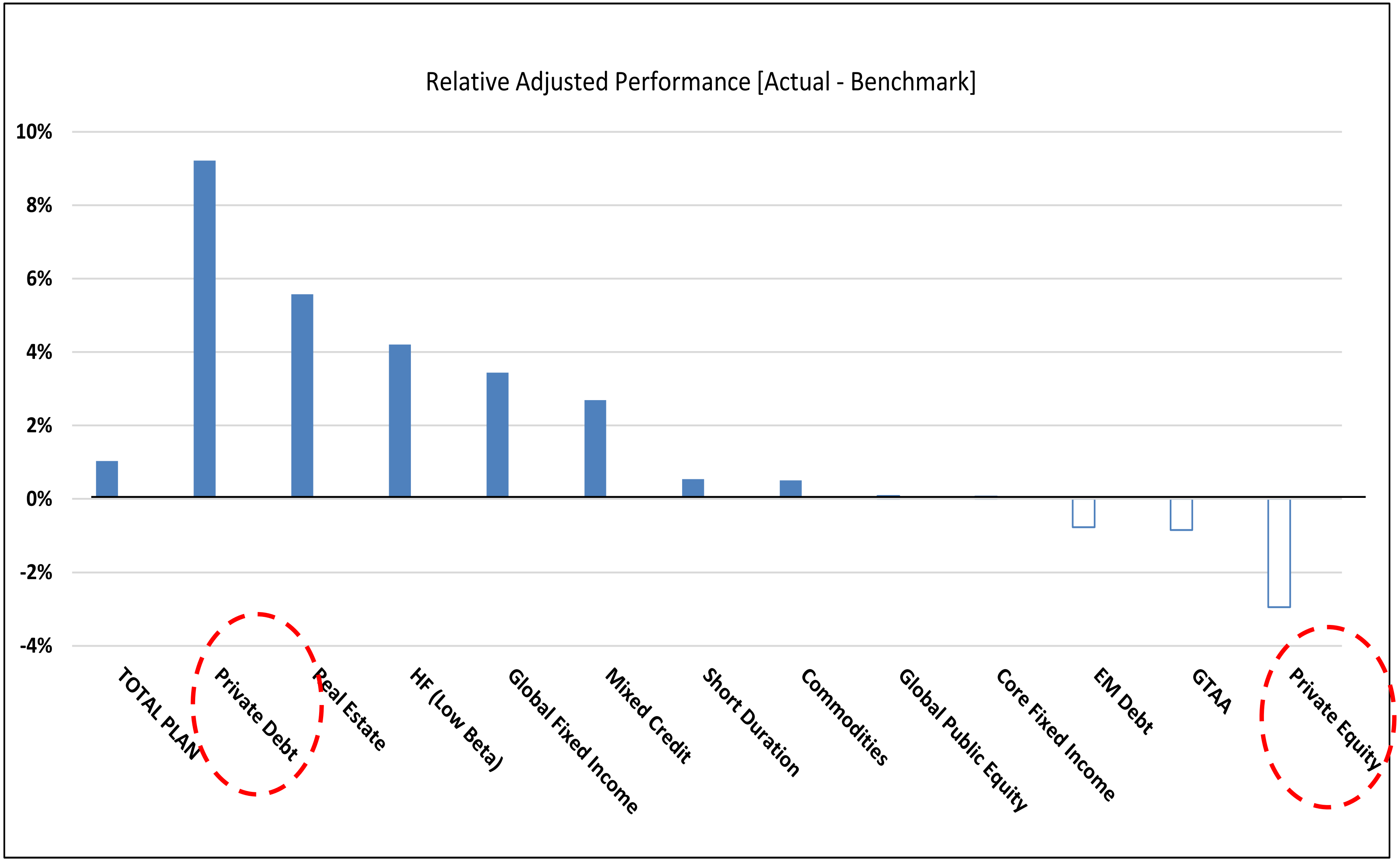
Asset Class Performance vs Policy Benchmarks

As of June 30, 2014



Asset Class Performance vs Policy Benchmarks

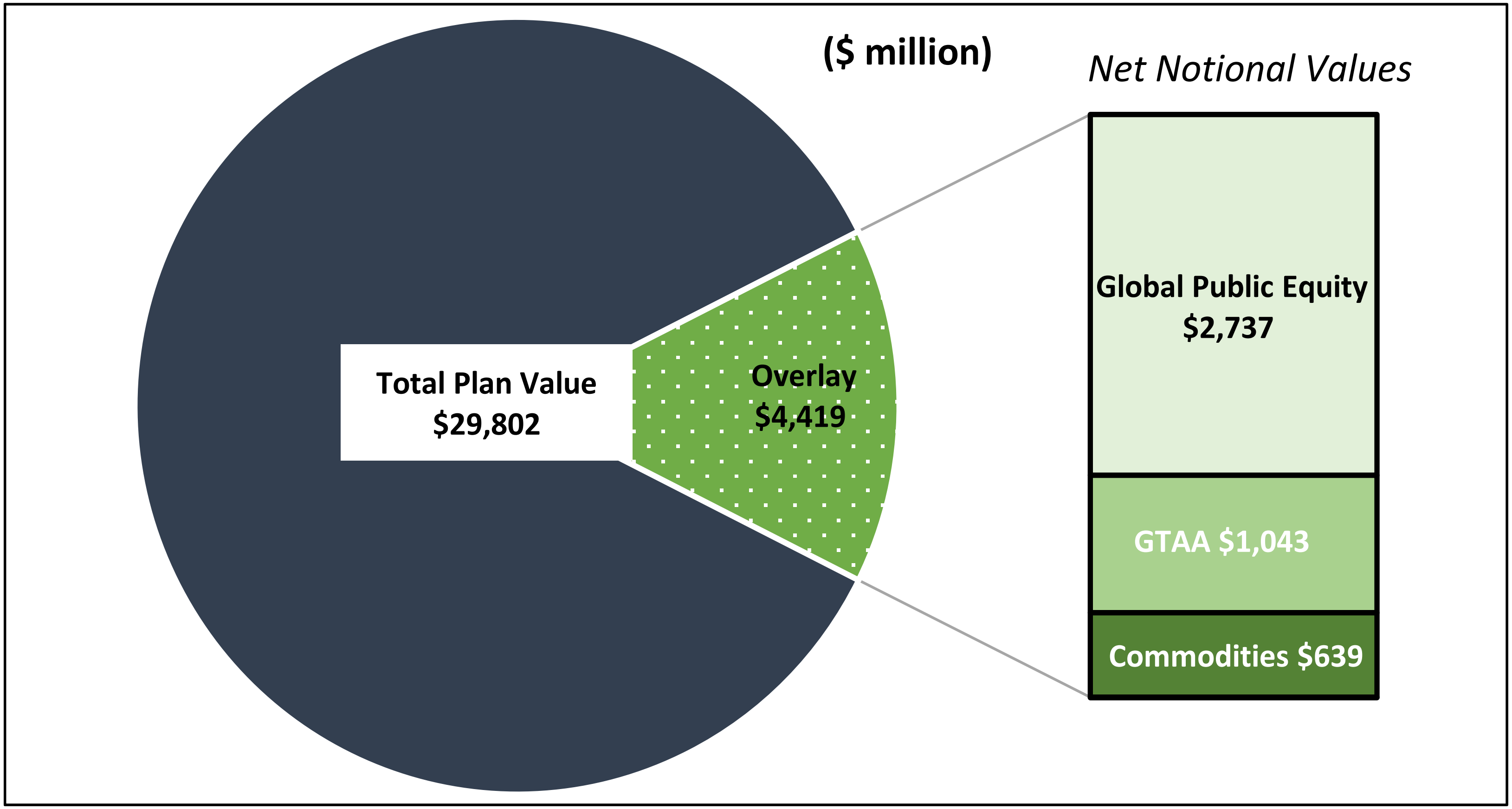
As of June 30, 2014



Overlay Exposure by Asset Class

As of June 30, 2014

- Gross Overlay exposure decreased from $6.7 billion to $4.4 billion as of March 31 primarily due to transition of the passive equity allocation to Blackrock.

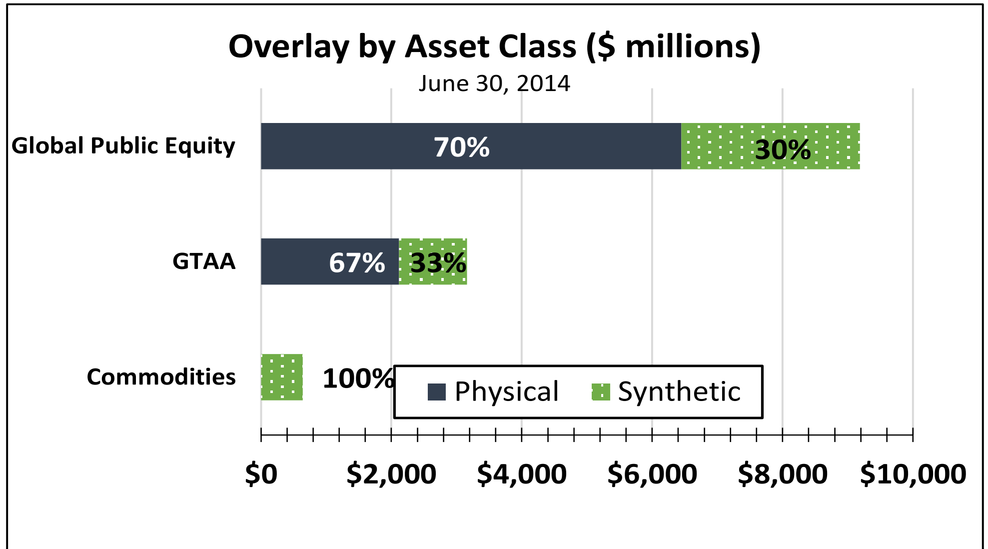


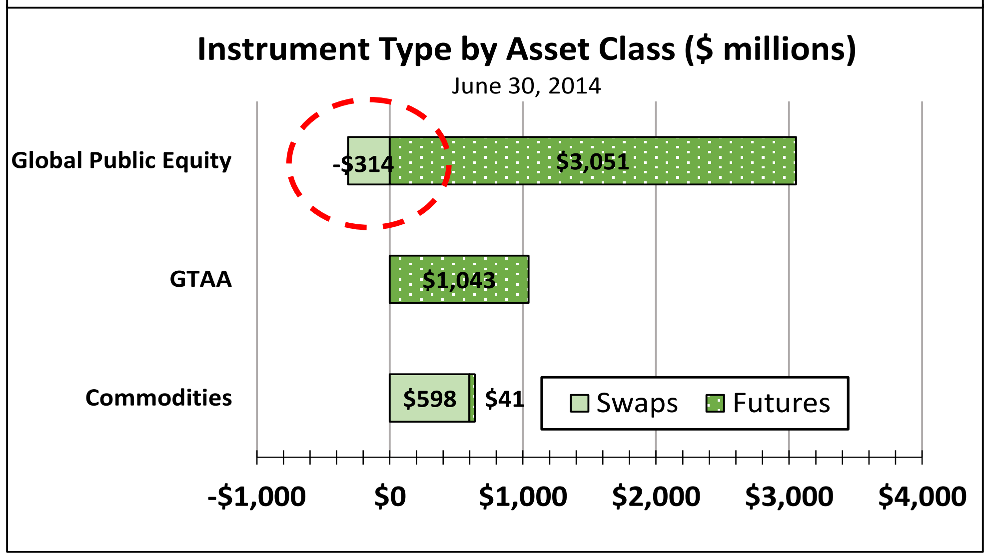
Overlay Composition

As of June 30, 2014

Significant Overlay Changes:

- Early April, executed swap to exchange R2000 exposure for U.S. large cap and EAFE ($300 million)
- Late April, accepted delivery of sovereign debt securities at maturity of EMD swap ($285 million)
- Mid June, multi-day transition from global equity futures to Blackrock Global Equity strategy ($2 billion)
- End of August (FY 2014-15), added to Commodities exposure via index swaps ($100 million)

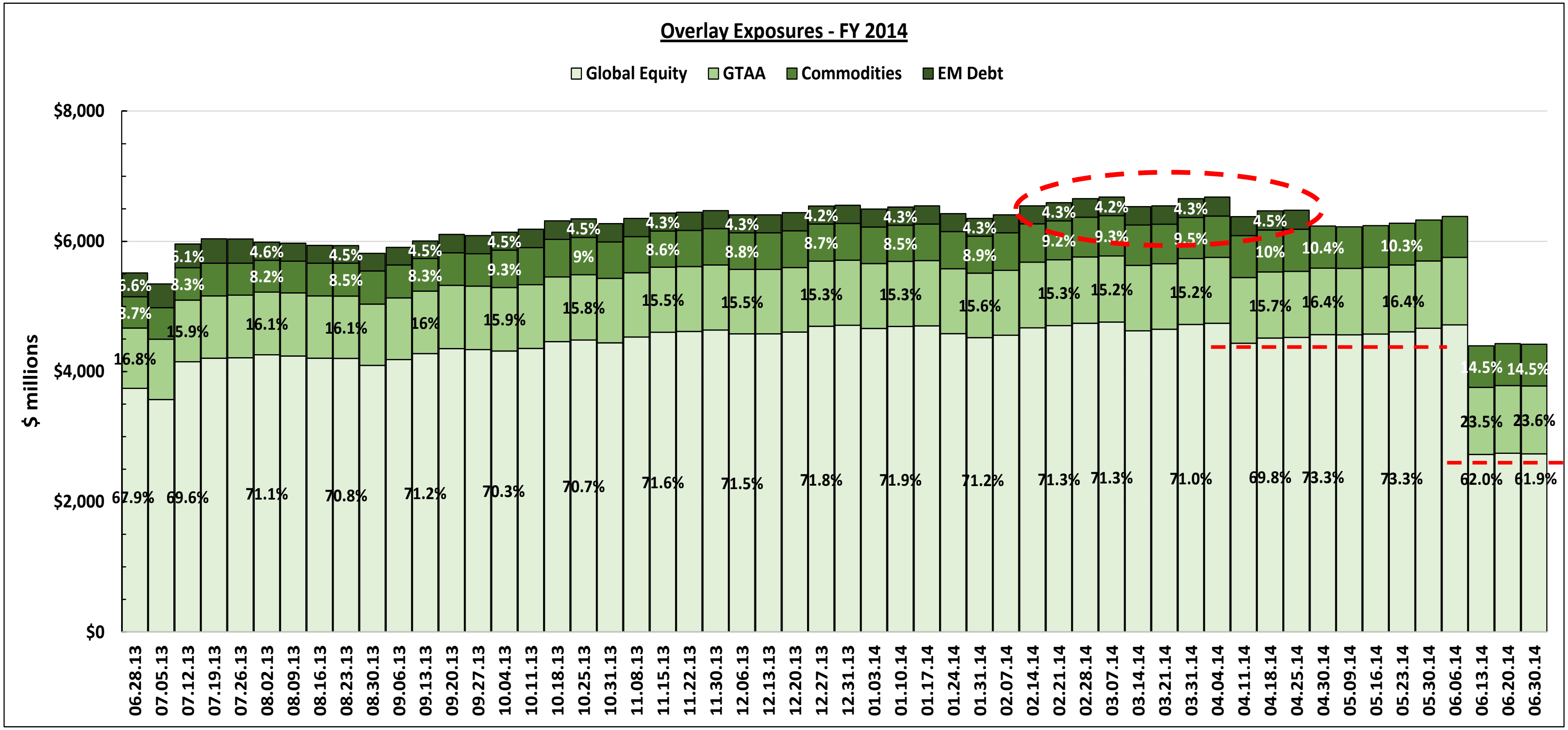




SC Retirement System Investment Commission

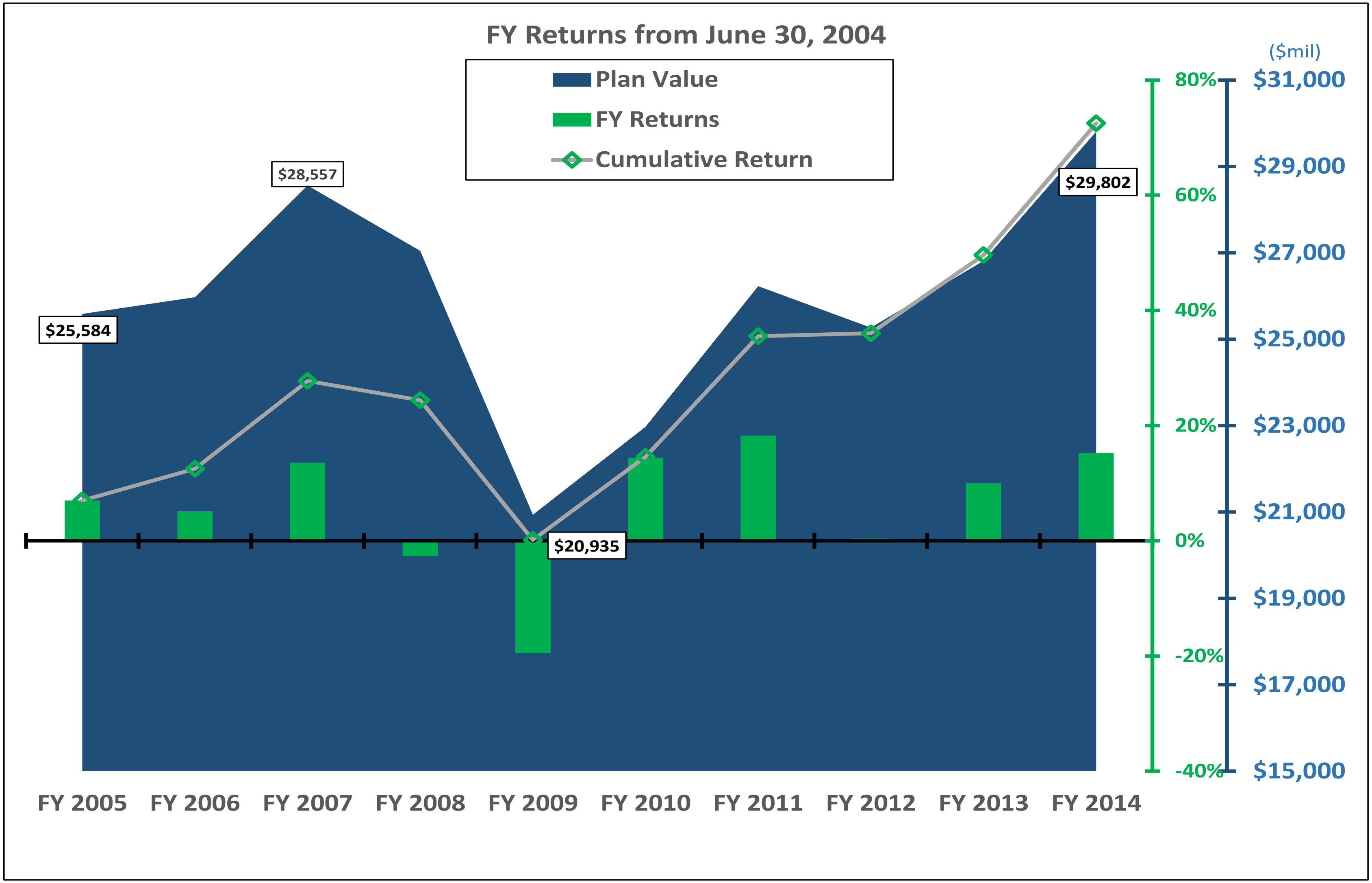
Weekly Change in Overlay Exposure

As of June 30, 2014



Long Term Plan Performance (as Reported)[1]

As of June 30, 2014



Performance Contribution – Public Markets[5]

Ranking of Highest and Lowest Contributors

Account Name	FY Avg Mkt Value ($mil)	FYTD Return	Average Weight	Est. FYTD Contribution
1 Russell Large Cap Transition	$799	26.62%	2.86%	**0.66%**
2 Bridgewater All Weather	$953	14.52%	3.41%	**0.48%**
3 GMO Multi-Strategy	$941	14.48%	3.37%	**0.46%**
4 Times Square Cap Mgmt	$583	23.83%	2.09%	**0.45%**
5 Lighthouse - Low Beta HF	$890	13.83%	3.19%	**0.42%**
6 Pyramis Global Advisors	$458	23.12%	1.64%	**0.34%**
7 Integrity	$346	27.74%	1.24%	**0.31%**
8 LPE Earnest Partners	$476	19.21%	1.70%	**0.28%**
9 Grosvenor - Mixed Credit HF	$421	14.79%	1.51%	**0.22%**
10 Bridgewater - Pure Alpha	$386	15.33%	1.38%	**0.20%**
11 William Blair	$284	16.76%	1.02%	**0.19%**
12 Blackrock Fixed Inc	$1,040	4.80%	3.73%	**0.18%**
13 LSV Asset Mgmt	$257	18.26%	0.92%	**0.16%**
14 Schroders	$266	13.62%	0.95%	**0.15%**
15 Loomis Sayles Global	$342	12.36%	1.23%	**0.15%**

Account Name	FY Avg Mkt Value ($mil)	FYTD Return	Average Weight	Est. FYTD Contribution
1 Loomis Sayles L/S	$294	7.03%	1.05%	**0.09%**
2 Caspian SC Hldgs LP	$218	10.19%	0.78%	**0.08%**
3 Aberdeen	$231	9.31%	0.83%	**0.08%**
4 Bridgewater - PAM	$96	22.21%	0.34%	**0.07%**
5 Goldman Sachs - EMD	$259	6.32%	0.93%	**0.07%**
6 Apollo - Mixed Credit	$265	6.65%	0.95%	**0.06%**
7 Penn - High Yield	$129	12.43%	0.46%	**0.05%**
8 Jamison Eaton & Wood	$220	6.24%	0.79%	**0.05%**
9 Mondrian EMD	$236	5.60%	0.84%	**0.05%**
10 GSO - Mixed Credit HF	$92	13.89%	0.33%	**0.04%**
11 Mondrian Global	$269	4.24%	0.96%	**0.04%**
12 Goldman Sachs - Low Beta HF	$101	9.59%	0.36%	**0.03%**
13 Blackstone - Low Beta HF	$146	5.26%	0.52%	**0.03%**
14 SCRS Fixed Inc.	$184	4.39%	0.66%	**0.02%**
15 Reservoir Strat Prt	$57	10.53%	0.20%	**0.02%**

RSIC
SC Retirement System Investment Commission

Performance Contribution – Public Markets[5]

Largest Allocations (Greater than 1%)

	Account Name	FY Avg Mkt Value ($mil)	FYTD Return	Average Weight >1%	Est. FYTD Contribution
1	Pimco Fixed Income	$1,051	3.97%	3.77%	0.14%
2	Blackrock Fixed Inc	$1,040	4.80%	3.73%	0.18%
3	Bridgewater All Weather	$953	14.52%	3.41%	0.48%
4	GMO Multi-Strategy	$941	14.48%	3.37%	0.46%
5	Lighthouse - Low Beta HF	$890	13.83%	3.19%	0.42%
6	Russell Large Cap Transition	$799	26.62%	2.86%	0.66%
7	Times Square Cap Mgmt	$583	23.83%	2.09%	0.45%
8	LPE Earnest Partners	$476	19.21%	1.70%	0.28%
9	Pyramis Global Advisors	$458	23.12%	1.64%	0.34%
10	Wamco Global	$442	8.48%	1.58%	0.13%
11	Grosvenor - Mixed Credit HF	$421	14.79%	1.51%	0.22%
12	SCRS EMD ETF	$410	7.77%	1.47%	0.11%
13	Bridgewater - Pure Alpha	$386	15.33%	1.38%	0.20%
14	Integrity	$346	27.74%	1.24%	0.31%
15	Loomis Sayles Global	$342	12.36%	1.23%	0.15%
16	De Shaw - Hedge Fund	$317	12.66%	1.14%	0.14%
17	Lighthouse - Mixed Credit HF	$303	10.79%	1.09%	0.11%

Performance Contribution – Private Markets[5,6]

Ranking of Highest and Lowest Contributors

Account Name	3YR Avg Mkt Value ($mil)	3YR Return	Average Weight	Est. 3YR Contribution
1 Morgan Stanley - Private Equity	$369	12.13%	1.38%	**0.50%**
2 Goldman Sachs - Private Debt	$409	9.06%	1.53%	**0.41%**
3 Apollo - Private Equity	$220	19.82%	0.83%	**0.31%**
4 Goldman Sachs - Private Equity	$123	18.72%	0.46%	**0.27%**
5 Apollo - Private Debt	$166	21.33%	0.62%	**0.27%**
6 Clayton Dubilier	$76	25.08%	0.29%	**0.21%**
7 TCW - Private Debt	$149	8.08%	0.56%	**0.20%**
8 Greystar	$102	4.01%	0.38%	**0.20%**
9 Pantheon USA VII	$92	14.58%	0.35%	**0.15%**
10 Morgan Stanley - Real Estate	$106	11.87%	0.40%	**0.14%**
11 Warburg Pincus PE	$91	13.96%	0.34%	**0.14%**
12 Crestview	$79	14.84%	0.29%	**0.13%**
13 Torchlight Capital	$76	17.96%	0.29%	**0.13%**
14 Aquiline Financial	$104	10.28%	0.39%	**0.12%**
15 Selene II	$83	10.10%	0.31%	**0.10%**

Account Name	3YR Avg Mkt Value ($mil)	3YR Return	Average Weight	Est. 3YR Contribution
1 WL Ross - Whole Loans	$58	12.63%	0.22%	**0.08%**
2 Bridgepoint Europe	$50	12.79%	0.19%	**0.07%**
3 De Shaw Opportunistic	$96	3.09%	0.36%	**0.07%**
4 Truebridge Fund	$38	16.74%	0.14%	**0.07%**
5 Welsh Carson	$36	15.94%	0.13%	**0.07%**
6 Sankaty	$115	4.41%	0.43%	**0.06%**
7 Pantheon Europe	$52	8.71%	0.19%	**0.05%**
8 Square 1 Ventures	$35	12.17%	0.13%	**0.05%**
9 Lexington Partners II	$27	15.14%	0.10%	**0.05%**
10 Industry Ventures VI	$21	11.35%	0.08%	**0.04%**
11 Truebridge Cap II	$21	10.58%	0.08%	**0.03%**
12 Goldman Sachs Mezz V	$23	10.55%	0.09%	**0.03%**
13 Northstar Mezz V	$21	10.13%	0.08%	**0.02%**
14 Paul Capital	$46	2.25%	0.17%	**0.01%**
15 Aquiline II Sidecar	$107	-8.55%	0.40%	**-0.12%**

Performance Contribution – Private Markets[5,6]

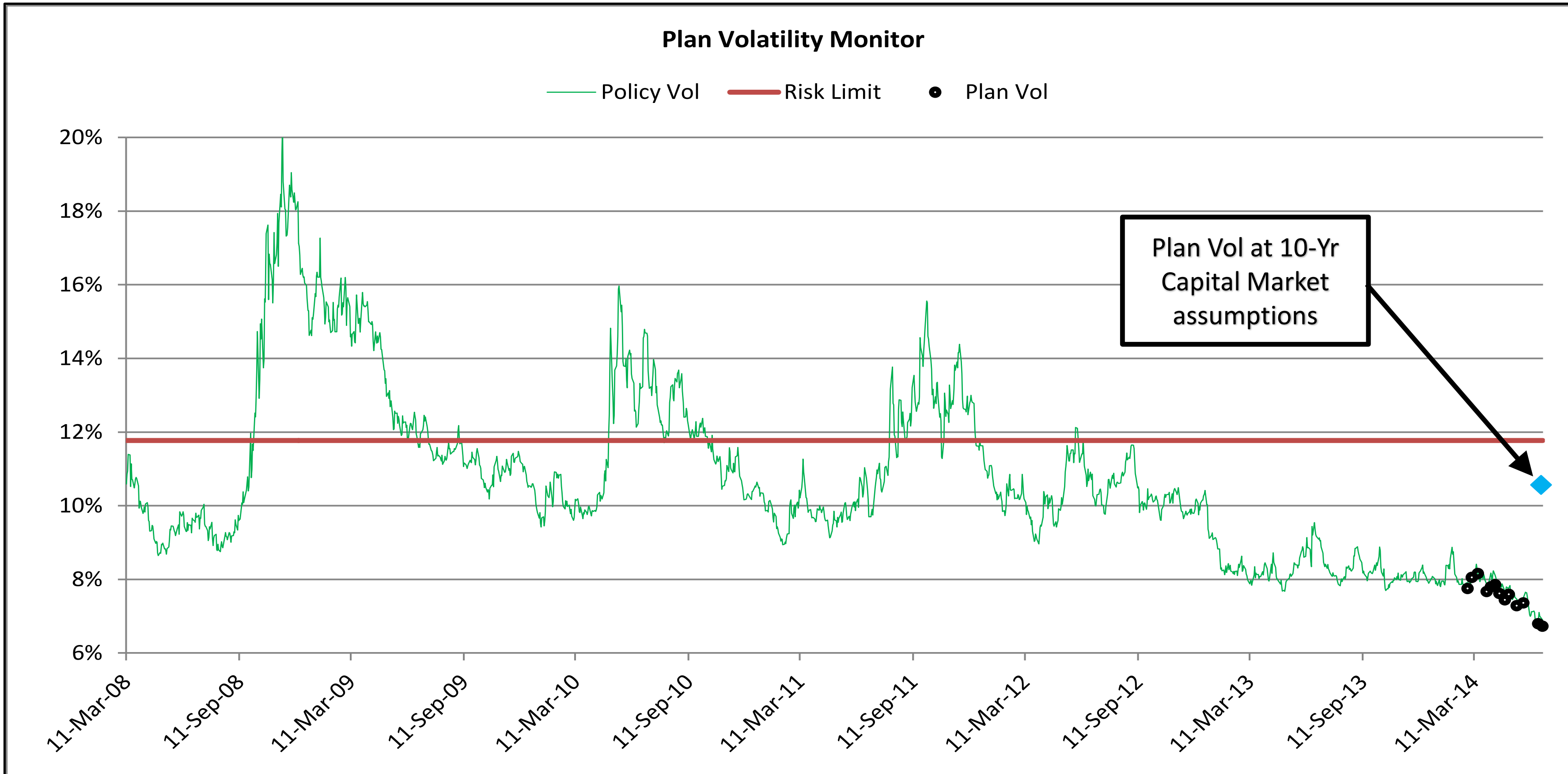
Largest Allocations (Top 20 by % allocation)

Account Name	3YR Avg Mkt Value ($mil)	3YR Return	Average Weight	Est. 3YR Contribution
1 Goldman Sachs - Private Debt	$409	9.06%	1.53%	0.41%
2 Morgan Stanley - Private Equity	$369	12.13%	1.38%	0.50%
3 Apollo - Private Equity	$220	19.82%	0.83%	0.31%
4 Apollo - Private Debt	$166	21.33%	0.62%	0.27%
5 TCW - Private Debt	$149	8.08%	0.56%	0.20%
6 Goldman Sachs - Private Equity	$123	18.72%	0.46%	0.27%
7 Sankaty	$115	4.41%	0.43%	0.06%
8 Aquiline II Sidecar	$107	-8.55%	0.40%	-0.12%
9 Aquiline Financial	$104	10.28%	0.39%	0.12%
10 De Shaw Opportunistic	$96	3.09%	0.36%	0.07%
11 Avenue Capital US	$94	-0.99%	0.35%	0.02%
12 Pantheon USA VII	$92	14.58%	0.35%	0.15%
13 Warburg Pincus PE	$91	13.96%	0.34%	0.14%
14 Selene II	$83	10.10%	0.31%	0.10%
15 Crestview	$79	14.84%	0.29%	0.13%
16 Clayton Dubilier	$76	25.08%	0.29%	0.21%
17 Pantheon Europe	$52	8.71%	0.19%	0.05%
18 Lexington Partners VII	$52	14.88%	0.19%	0.09%
19 Bridgepoint Europe	$50	12.79%	0.19%	0.07%
20 Paul Capital	$46	2.25%	0.17%	0.01%

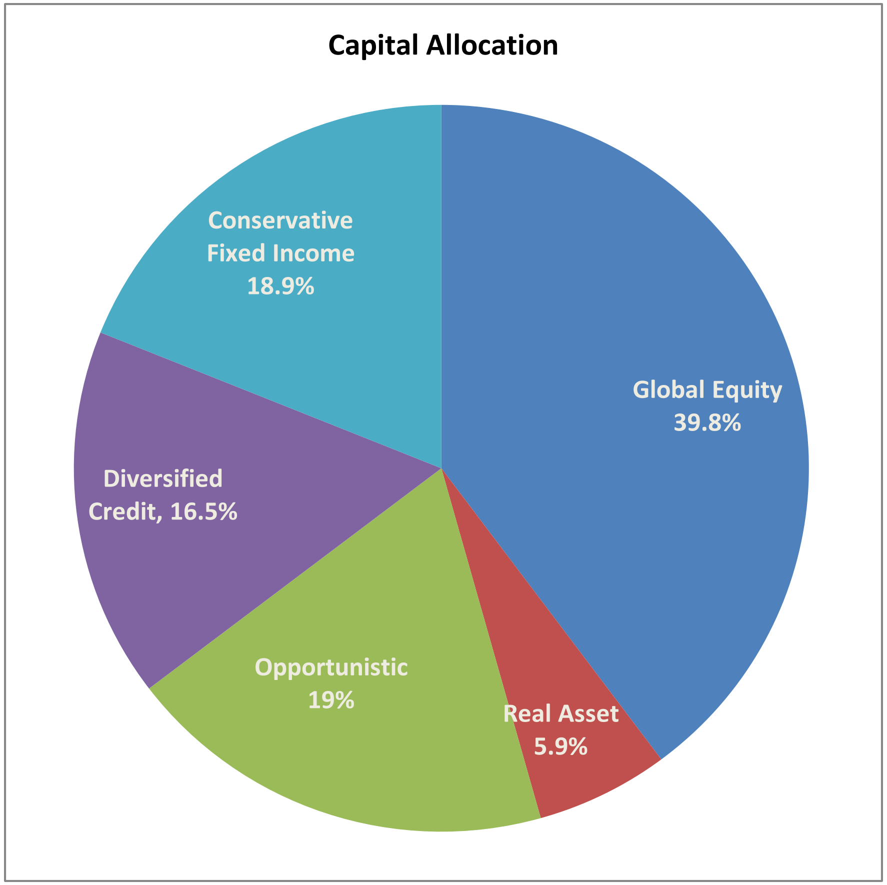
RSIC Risk Monitor

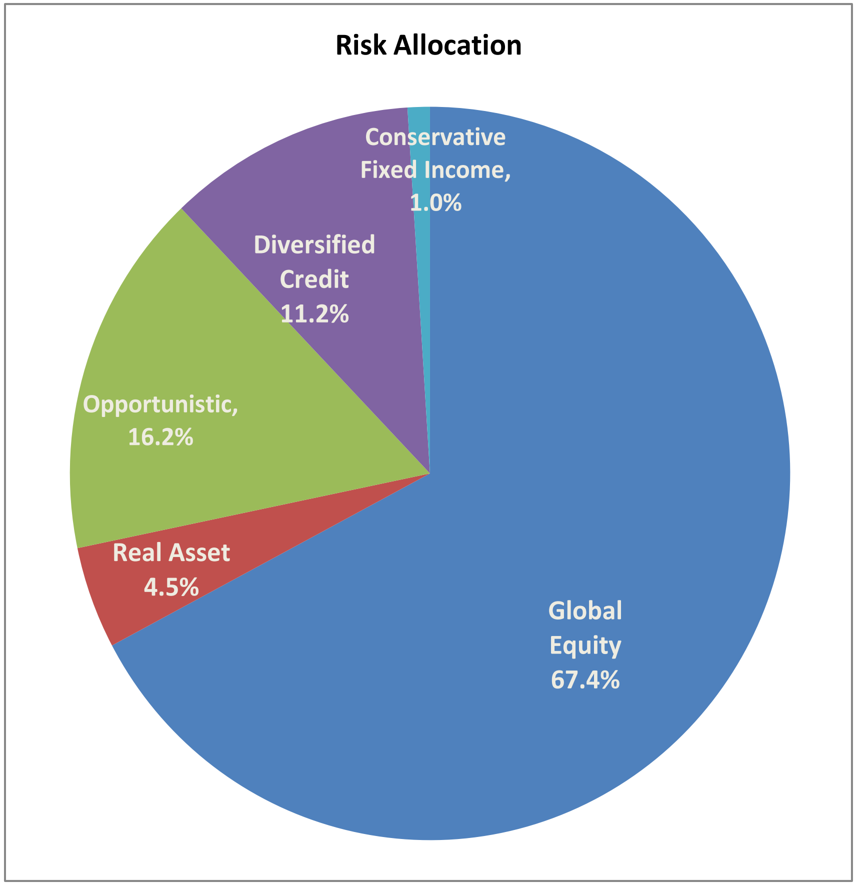
Risk Monitor 06/30/2014

	NAV	E[R]	$ E[R]	Volatility	$ Volatility	TE	$ TE
Plan (Real Time Estimate)	**$29,550**	**6.56%**	**$1,939.2**	**6.72%**	**$1,987.0**	**0.31%**	**$92.2**
Policy (10 Year Assumptions)		**6.57%**	**$1,940.9**	**10.57%**	**$3,122.4**		



RSIC Risk Allocation





Goldman Sachs Risk Report

Factor-based risk decomposition

- Total Volatility decreased from 8.7% to 7.5% vs. March, 2014 analysis
- Equity Risk component increased from 78.9% to 79.4%
- HY Spread component decreased from 6.0% to 5.4%

Total Risk Decomposition - Factors (%)	
Global Equity	79.4
Chg in Exchange Rates	15.3
Chg in US HY Spread v. Treasury	5.4
Commodities	1.8
Chg in US Treasury Yields (10 year)	-1.9

Sum to 100%

Total Risk Decomposition - Factors (%)	
Global Equity	6.3
Chg in Exchange Rates	2.0
Chg in US HY Spread v. Treasury	1.0
Commodities	0.6
Chg in US Treasury Yields (10 year)	0.3
Diversification Benefit	-2.6

Sum to Factor-Based Volatility (7.5%)

Footnotes and Disclosures

Footnotes

1. Source ("as Reported"): BNY Mellon. Cash performance includes the impact of administrative fees and expenses for Strategic Partnerships.

2. Benefit payments are net of Plan contributions and disbursements.

3. "Cash" market value is the aggregate cash held at the custodian, Russell Investments, and strategic partnerships. Cash performance is estimated using the Merrill Lynch 3-Month T-Bill rate.

4. Overlay financing is calculated as: [Total Margin Earnings – Total Overlay Cost = Net Overlay Financing]

5. Performance Contribution methodology: Excludes cash & short duration accounts, accounts not active for the entire Fiscal Year to Date period, accounts with average market value less than $29 million, and accounts with market value less than $29 million as of 06/30/14. Returns are net of fees and expenses.

6. Performance Contribution - Private Markets: Presentation is based on time-weighted performance calculations over a short period. Both the contribution method and the performance period should be aligned with portfolio expectations relative to any private market asset class.

Disclosures

- Market values are presented in millions of USD except as otherwise indicated.

- Supplemental performance perspectives are based on RSIC internal analysis except as otherwise indicated. Estimated contributions to return over multiple reporting periods are calculated as [beginning value * periodic return] except as otherwise indicated. Internal estimates utilize inputs from BNY Mellon and Russell Investments.

- Returns are provided by BNY Mellon and are time-weighted, total return calculations. Net of fee performance is calculated and presented after the deduction of management fees and trading expenses. Periods greater than one year are annualized. Past performance is no guarantee of future results.

- Overlay allocation detail is provided by Russell Investments.

Retirement System Investment Commission

Second Quarter 2014 Investment Performance Review
October 2014

Suzanne M. Bernard, CFA, CAIA – Partner
Brady O'Connell, CFA , CAIA – Partner

Market and Performance Highlights

- During the second quarter, both equity and fixed income markets experienced positive returns bolstered by improvement in U.S. economic data following a slow first quarter, the Federal Reserve continuing its tapering program, and easing tensions in Ukraine and monetary easing in Europe.
- Emerging markets overall improved after posting negative results in the first quarter and outperformed developed markets during the second quarter.
- The Total Plan gained 3.7% during the second quarter and outperformed its benchmark by 0.5 percentage points
  - Primary contributors to the Plan's relative performance during 2Q included the following:
    - Investments in Private Equity, Low Beta Hedge Funds, and Real Estate
    - An underweight allocation to Commodities and Private Debt (which underperformed the Plan's Policy Index)
  - Primary detractors from relative performance during the quarter included the following:
    - Investments in Global Public Equity
    - An overweight allocation to Cash and Short Duration and Core Fixed Income (which underperformed the Plan's Policy Index)
    - An underweight allocation to Emerging Market Debt (which outperformed the Plan's Policy Index)
- The Plan's long-term performance has been favorable. Over the trailing five-year period ending 6/30/14, the Total Plan has outperformed its Policy Index while exhibiting a comparable level of volatility. Additionally, the Plan's trailing five-year return of 11.4% exceeded its 7.5% actuarial assumed rate of return.
- At the end of the second quarter, the Plan's asset allocation was in compliance with long-term targets and the allowable ranges stipulated in its Statement of Investment Objectives and Policies (SIOP).
- At quarter-end, the Plan's total hedge fund exposure was 12.6%, below the long-term targeted maximum allocation of 15% stipulated in the SIOP.

Returns of the Major Capital Markets – Periods Ending 6/30/14

	Second Quarter	Fiscal YTD	3-Year[1]	5-Year[1]
Equity				
MSCI All Country World	5.04	22.95	10.25	14.28
S&P 500	5.23	24.61	16.58	18.83
Russell 2000	2.05	23.64	14.57	20.21
MSCI EAFE	4.09	23.57	8.10	11.77
MSCI Emerging Markets	6.60	14.31	-0.39	9.24
Fixed Income				
Barclays Global Aggregate (Hedged)	2.01	5.17	4.50	4.64
Barclays 1-3 Year Government/Credit	0.33	1.14	1.00	1.73
Barclays Aggregate	2.04	4.38	3.67	4.87
Barclays High Yield	2.41	11.74	9.49	13.98
JPM EMBI Global Diversified	4.75	11.64	7.40	10.32
JPM GBI-EM Global Diversified	4.02	3.91	1.16	7.42
Commodities				
Bloomberg Commodity	0.08	8.21	-5.17	1.99
Hedge Funds				
HFRI Fund-Weighted Composite[2]	2.06	9.11	4.04	6.50
Real Estate				
NCREIF ODCE + 75 bps	2.64	14.51	12.80	8.53
Private Equity				
Thomson Reuters VentureXpert[3]	7.06	20.56	14.08	15.25

MSCI Indices and NCREIF ODCE show net returns. All other indices show total returns.

[1] Periods are annualized
[2] Latest 5 months of HFR data are estimated by HFR and may change in the future.
[3] Benchmark as of 12/31/13

SIOP Section II C - Manager Updates

- There are no new noteworthy developments to report regarding the Plan's existing managers since our last quarterly plan review.

* The SIOP Section II C addresses the adoption of a Service Provider Selection Policy to govern the selection, monitoring, and reporting of RSIC's service providers. All service providers are subject to regular and appropriate monitoring throughout the term of the engagement.

SIOP Section III B - Asset Allocation at 6/30/14

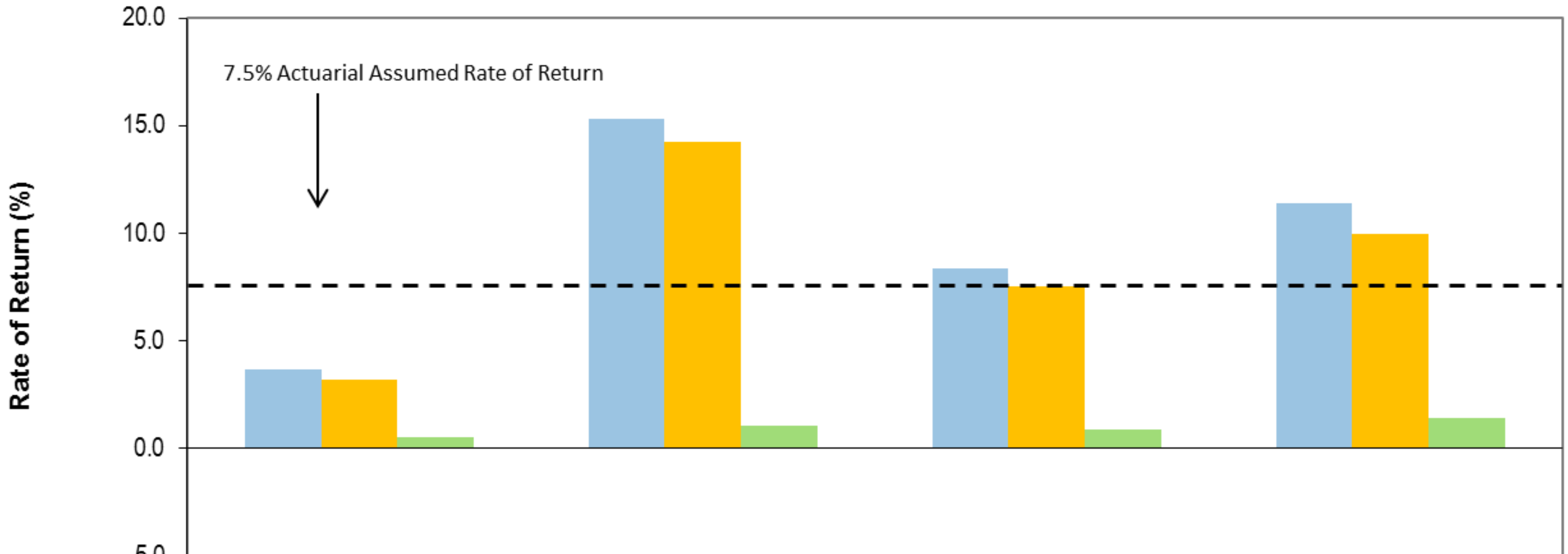
	MV at 6/30/14	Overlay Exposures	Net Position	% of Total Plan	Policy Targets	Difference	Allowable Ranges	SIOP Compliance?
Total Plan	**$29,802,410,845**	**$0**	**$29,802,410,845**	**100.0%**	**100.0%**	**0.0%**	**-**	**-**
Global Equity	**$9,117,426,451**	**$2,737,120,980**	**$11,854,547,432**	**39.8%**	**40.0%**	**-0.2%**		
Public Equities	$6,450,188,162	$2,737,120,980	$9,187,309,143	30.8%	31.0%	-0.2%	25-37%	*Yes*
Private Equity	$2,667,238,289	$0	$2,667,238,289	8.9%	9.0%	-0.1%	6-12%	*Yes*
Conservative Fixed Income	**$10,107,703,179**	**($4,419,183,752)**	**$5,688,519,428**	**19.1%**	**15.0%**	**4.1%**		
Core Fixed Income	$2,580,178,034	$0	$2,580,178,034	8.7%	7.0%	1.7%	4-10%	*Yes*
Global Fixed Income	$1,103,525,942	$0	$1,103,525,942	3.7%	3.0%	0.7%	0-6%	*Yes*
Cash and Short Duration	$6,423,999,203	($4,419,183,752)	$2,004,815,452	6.7%	5.0%	1.7%	0-6%	*Yes*
Diversified Credit	**$4,894,548,003**	**$0**	**$4,894,548,003**	**16.4%**	**19.0%**	**-2.6%**		
Mixed Credit	$1,949,625,999	$0	$1,949,625,999	6.5%	6.0%	0.5%	3-9%	*Yes*
Emerging Markets Debt	$1,260,823,885	$0	$1,260,823,885	4.2%	6.0%	-1.8%	3-9%	*Yes*
Private Debt	$1,684,098,119	$0	$1,684,098,119	5.7%	7.0%	-1.3%	4-10%	*Yes*
Opportunistic	**$4,601,412,974**	**$1,043,033,420**	**$5,644,446,394**	**18.9%**	**18.0%**	**0.9%**		
Low Beta Hedge Funds	$2,482,209,157	$0	$2,482,209,157	8.3%	8.0%	0.3%	5-11%	*Yes*
GTAA/Risk Parity	$2,119,203,817	$1,043,033,420	$3,162,237,237	10.6%	10.0%	0.6%	7-13%	*Yes*
Real Assets	**$1,081,320,238**	**$639,029,351**	**$1,720,349,589**	**5.8%**	**8.0%**	**-2.2%**		
Commodities	$0	$639,029,351	$639,029,351	2.1%	3.0%	-0.9%	0-6%	*Yes*
Real Estate	$1,081,320,238	$0	$1,081,320,238	3.6%	5.0%	-1.4%	2-8%	*Yes*

Notes: Total Plan allocations are based on values obtained from BNYM and adjusted for overlay exposures based on information provided by Russell. Total hedge fund exposure as a % of Total Plan at 6/30/14 was 12.6% and was comprised as follows: 0.3% global equity hedge funds, 3.9% mixed credit hedge funds, and 8.3% low beta hedge funds. Public Equities includes the Russell Global Equity Transition account which had a value of $500,760 at 6/30/14.

* The SIOP Section III B provides the authorized Policy Asset Allocation including target allocations and ranges for each asset class based on the Commission's determination of the appropriate risk tolerance for the Portfolio and its long-term return expectations.

SIOP Section III-A-1) - Total Plan – Trailing Period Performance as of 6/30/14

- Performance over the longer periods shown below has exceeded the assumed return, achieving the primary investment objective laid out in Section III.A.1 of the SIOP.

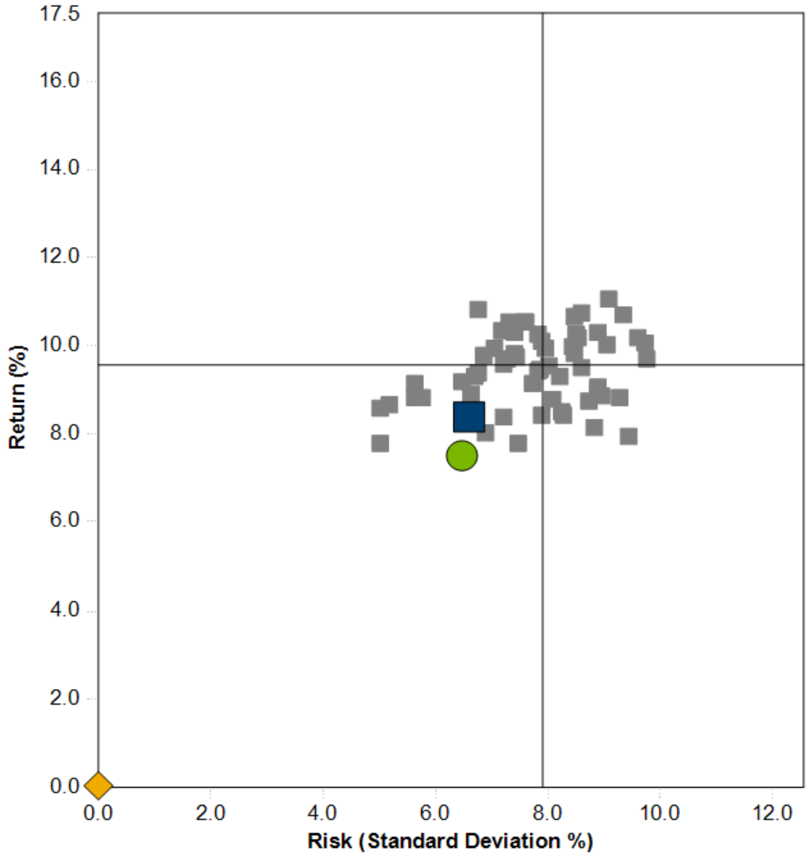


	Second Quarter	Fiscal YTD	3 Years	5 Years
Total Plan	3.7	15.3	8.4	11.4
Policy Index	3.2	14.3	7.5	10.0
Difference	0.5	1.0	0.9	1.4

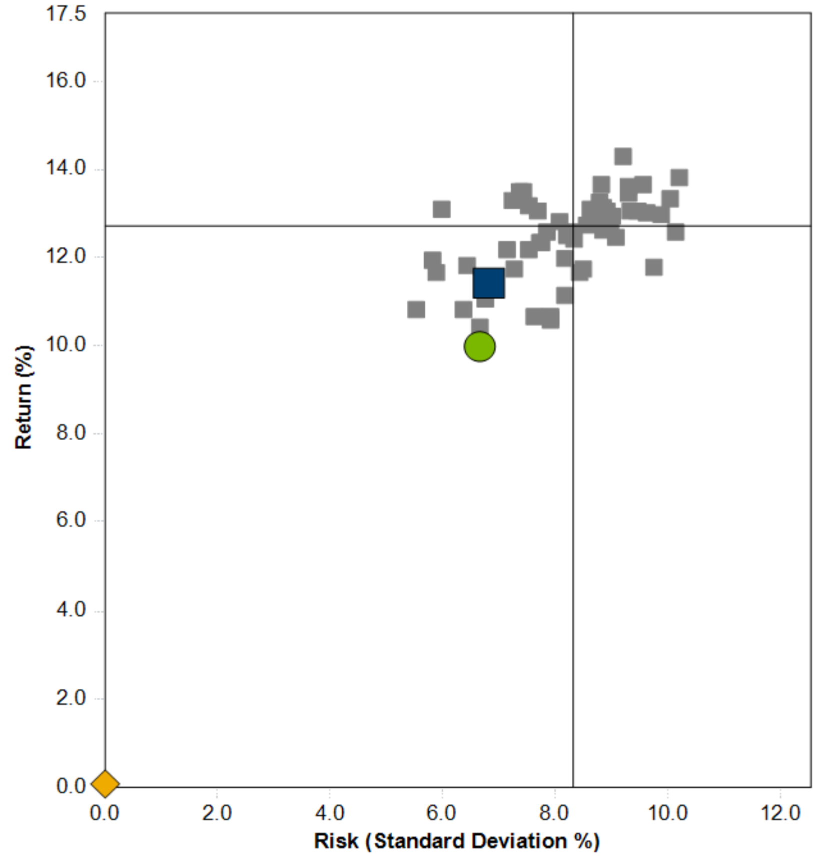
* The SIOP Section III-A-1 Investment Objective states “A diversified portfolio that achieves a rate of return greater than the actuarially assumed rate of return”

SIOP Section III-A-2) Total Plan Risk-Return – Trailing 3- and 5-Year Periods Ending 6/30/14

All Public Plans > $1B-Total Fund vs. 90 Day U.S. Treasury Bill



	Return	Standard Deviation
Total Plan	8.37	6.62
Policy Index	7.51	6.46
Citigroup 90-Day T-Bill	0.05	0.01
Median	9.56	7.88



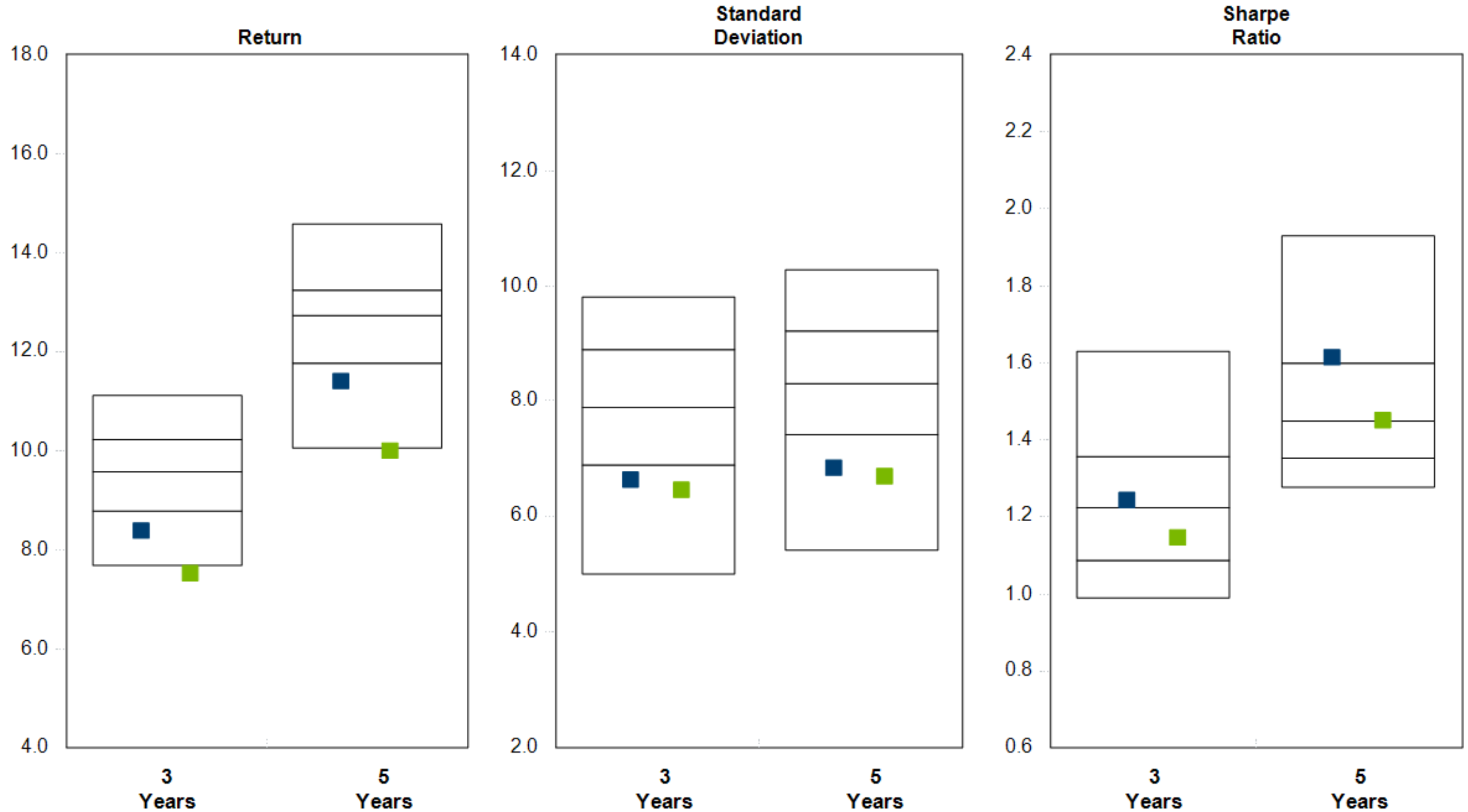
	Return	Standard Deviation
Total Plan	11.41	6.82
Policy Index	9.98	6.68
Citigroup 90-Day T-Bill	0.08	0.01
Median	12.72	8.32

Based on a universe of public funds with market values greater than $1 billion, compiled by BNYM and Investment Metrics.

* The SIOP Section III-A-2 Investment Objective states “A rate of return greater than the of the Policy Asset Allocation return while maintaining a similar risk profile”

SIOP Section III-A-2) Total Plan Risk Profile – Trailing 3- and 5-Year Periods Ending 6/30/14

All Public Plans > $1B-Total Fund vs. 90 Day U.S. Treasury Bill



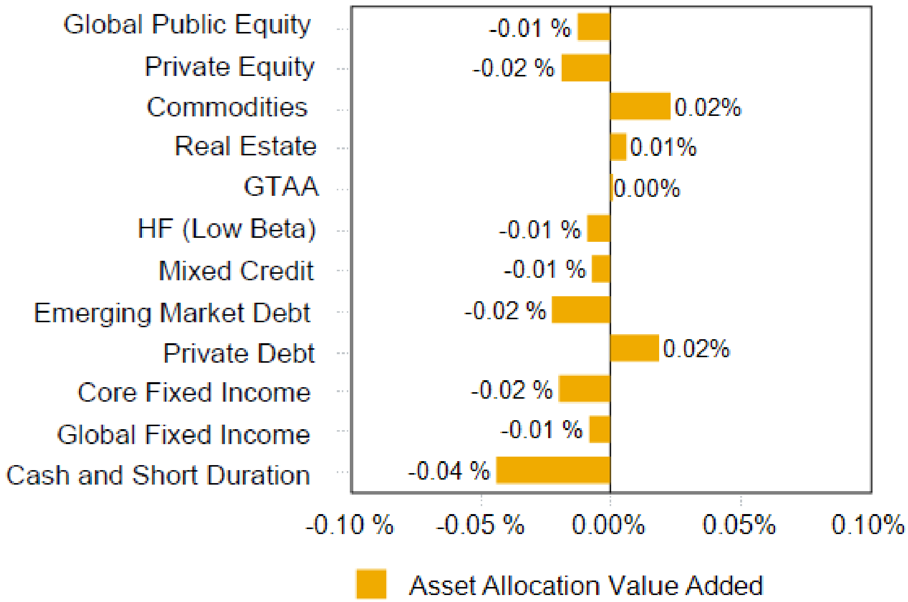
	Return 3 Years	Return 5 Years	Standard Deviation 3 Years	Standard Deviation 5 Years	Sharpe Ratio 3 Years	Sharpe Ratio 5 Years
Total Plan	8.37 (86)	11.41 (83)	6.62 (82)	6.82 (84)	1.24 (45)	1.61 (24)
Policy Index	7.51 (99)	9.98 (96)	6.46 (85)	6.68 (85)	1.15 (65)	1.45 (51)
5th Percentile	11.14	14.59	9.82	10.29	1.63	1.93
1st Quartile	10.24	13.24	8.89	9.24	1.35	1.60
Median	9.56	12.72	7.88	8.32	1.22	1.45
3rd Quartile	8.79	11.76	6.88	7.42	1.09	1.35
95th Percentile	7.68	10.05	5.02	5.42	0.99	1.28

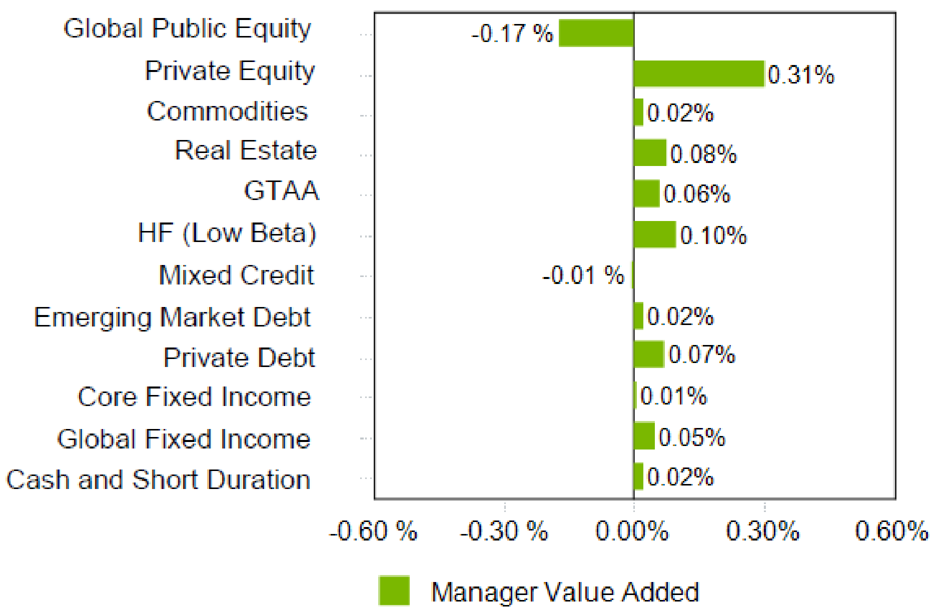
Based on a universe of public funds with market values greater than $1 billion, compiled by BNYM and Investment Metrics.

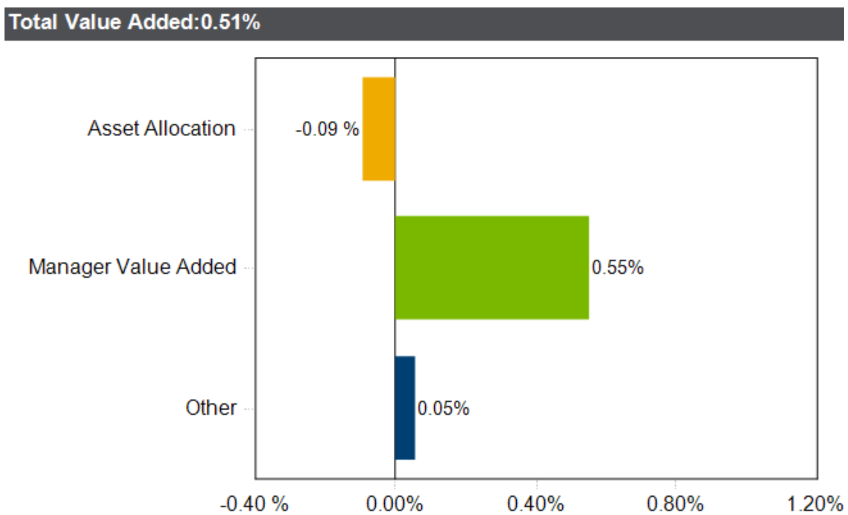
Note: For Standard Deviation, a higher percentile rank corresponds to a lower standard deviation or measure of risk.

* The SIOP Section III-A-2 Investment Objective states “A rate of return greater than the of the Policy Asset Allocation return while maintaining a similar risk profile”

Total Fund Performance Attribution – Second Quarter 2014







Note: "Other" captures the impact of timing of cash flows within and between asset classes

SIOP Section III-A-3) - Total Plan – Major Composite Performance at 6/30/14

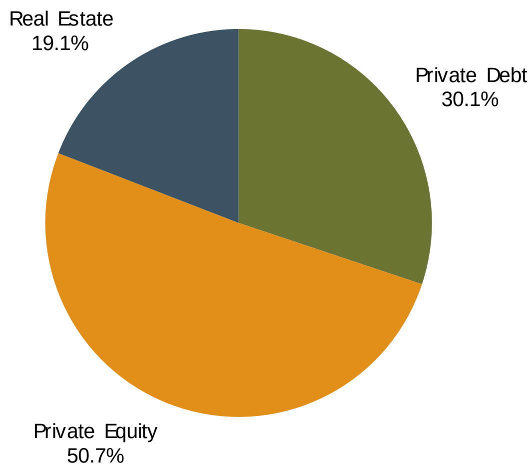
	Performance(%)			
	1 Quarter	Fiscal YTD	3 Years	5 Years
Total Plan	3.69	15.29	8.37	11.41
Policy Index	*3.18*	*14.26*	*7.51*	*9.98*
Global Public Equities	4.24	20.25	7.54	15.38
MSCI AC World Index (Net)	*5.04*	*22.95*	*10.25*	*14.28*
Private Equity	5.63	21.73	14.11	14.94
Custom Benchmark - PE (BNY Calc)	*2.61*	*24.63*	*16.20*	*24.17*
Core Fixed Income	2.11	4.43	4.01	5.69
Barclays Aggregate Index	*2.04*	*4.37*	*3.66*	*4.85*
Global Fixed Income	3.30	8.60	4.58	8.71
Barclays Global Aggregate (Hedged)	*2.01*	*5.17*	*4.50*	*4.64*
Short-Duration	0.39	1.73	1.69	
Barclays 1-3yr Gov/Credit Index	*0.33*	*1.14*	*1.00*	
Cash and Overlay	-0.09	29.12	2.52	8.78
Citigroup 3 Month T-Bill	*0.01*	*0.02*	*0.05*	*0.07*
Mixed Credit	2.01	10.09	6.75	11.79
Custom Benchmark - Mixed Credit	*2.07*	*7.31*	*5.92*	*8.86*
Emerging Markets Debt	4.78	6.98	3.20	8.15
Custom Benchmark - EMD	*4.39*	*7.75*	*6.19*	*9.58*
Private Debt	2.85	15.08	10.59	14.10
Custom Benchmark - Private Debt	*1.69*	*5.85*	*5.44*	*8.56*
Low Beta Hedge Funds	3.15	13.24		
HFRI Fund Weighted Composite Index	*2.01*	*9.06*		
GTAA/Risk Parity	4.51	14.26	9.05	11.74
Custom Benchmark - GTAA Risk Parity	*3.56*	*15.26*	*6.82*	*9.42*
Real Estate	4.75	20.13	13.42	11.51
NCREIF ODCE Index + 75bps	*2.64*	*14.51*	*12.80*	*8.53*

* The SIOP Section III-A-3 Investment Objective states “A rate of return for each asset class greater than its benchmark return with a prudent level of risk”

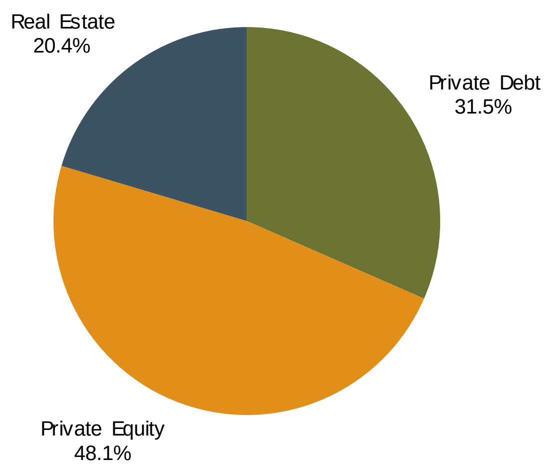
Private Markets Portfolio Performance – Inception Through 3/31/14

Portfolio	Commitments	Unfunded Commitments[1]	Total Contributions	Total Distributions	Net Asset Value	Total Value[2]	Potential Market Exposure[3]	DPI[4]	RVPI[5]	TVPI[6]	Net IRR
Private Debt	$3,943,768,861	$746,547,967	$3,648,967,609	$3,060,254,803	$1,733,110,959	$4,793,365,763	$2,479,629,255	0.84x	0.47x	1.31x	11.80%
Private Equity	3,495,772,019	858,422,991	2,807,397,530	1,137,480,652	2,919,388,349	4,056,869,001	3,777,608,126	0.41x	1.04x	1.45x	13.82%
Real Estate	1,853,426,441	502,326,670	1,476,193,839	684,755,557	1,101,441,756	1,786,197,313	1,603,768,425	0.46x	0.75x	1.21x	9.89%
Total Private Markets	**$9,292,967,321**	**$2,107,297,628**	**$7,932,558,978**	**$4,882,491,013**	**$5,753,941,065**	**$10,636,432,077**	**$7,861,005,807**	**0.62x**	**0.73x**	**1.34x**	**12.35%**

Diversification by Net Asset Value



Diversification by Potential Market Exposure[3]



1. Unfunded Commitments include recallable distributions.
2. Total Value = Total Distributions + Net Asset Value
3. Potential Market Exposure is calculated as Net Asset Value + Unfunded Commitments. This is intended to show what the exposure would be to any given investment or strategy if all unfunded commitments were called by the investment managers prior to making any distributions.
4. DPI = Total Distributions / Total Contributions
5. RVPI = Net Asset Value / Total Contributions
6. TVPI = Total Value / Total Contributions

Notes and Disclaimers

- SCRS assets are held both "in and out of bank". "Out of bank" assets are not in the custody of BNY Mellon or the STO. Consolidating is an accommodation by BNY Mellon and the STO and thus cannot be relied upon as representations of BNY Mellon or the STO.

- All rates of return are net of fees. Total Plan returns for periods starting 7/1/12 and thereafter have been calculated by HEK based on market values and transaction information obtained from the Plan's custodian, BNY Mellon. Returns for periods prior to 7/1/12 were provided by the Plan's previous consultant, NEPC. Returns for asset class composites created at 7/1/13 have been calculated by HEK for those periods subsequent to 7/1/13 and were provided by BNYM for periods prior.

- Custom benchmarks reflect the historical composition of the SCRS policy benchmarks over time.

- Attribution analysis measures the various sources of the Total Plan's excess return over its Policy Index. The Plan's total value added/lost versus the Policy Index during the period can be decomposed into three sources: 1) Manager Value Added, 2) Asset Allocation Value Added, and 3) Other. Manager value added and asset allocation value added are each further broken down in terms of the contribution from each of the Plan's individual asset class components. Manager Value Added = (Actual Weight of Asset Class) x (Actual Asset Class Return – Asset Class Benchmark Return). Asset Allocation = (Asset Class Benchmark Return –Total Plan Benchmark Return) x (Actual Weight of Asset Class – Target Policy Weight of Asset Class). Other measures the impact of asset movements on the Total Fund results.

- Plan sponsor peer data on slides 7 and 8 is based on a universe of public funds with market values of $1 billion or greater compiled by BNYM and Investment Metrics. Figures shown for the trailing three-year period ending 6/30/14 reflect 71 plans within this universe which provided performance information for the entire period. Figures shown for the trailing five-year period ending 6/30/14 reflect 68 plans within this universe which provided performance information for the entire period.

South Carolina Retirement System

Private Markets Executive Summary

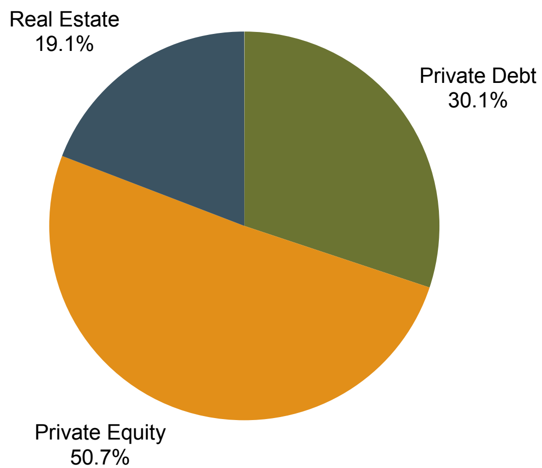
March 31, 2014

Hewitt ennisknupp
An Aon Company

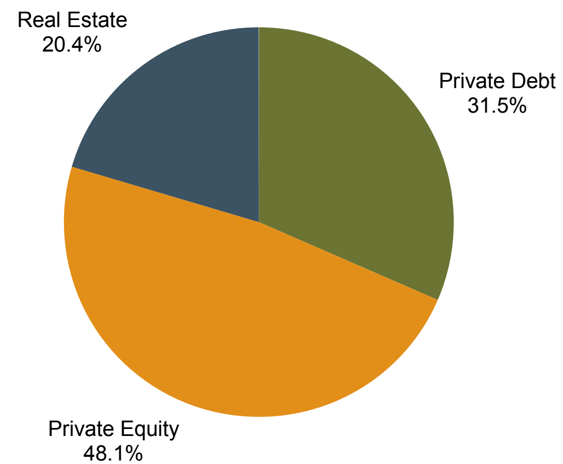
Private Markets Portfolio Performance
Inception to 3/31/2014

Portfolio	Commitments	Unfunded Commitments[1]	Total Contributions	Total Distributions	Net Asset Value	Total Value[2]	Potential Market Exposure[3]	DPI[4]	RVPI[5]	TVPI[6]	Net IRR
Private Debt	$3,943,768,861	$746,547,967	$3,648,967,609	$3,060,254,803	$1,733,110,959	$4,793,365,763	$2,479,629,255	0.84x	0.47x	1.31x	11.80%
Private Equity	3,495,772,019	858,422,991	2,807,397,530	1,137,480,652	2,919,388,349	4,056,869,001	3,777,608,126	0.41x	1.04x	1.45x	13.82%
Real Estate	1,853,426,441	502,326,670	1,476,193,839	684,755,557	1,101,441,756	1,786,197,313	1,603,768,425	0.46x	0.75x	1.21x	9.89%
Total Private Markets	**$9,292,967,321**	**$2,107,297,628**	**$7,932,558,978**	**$4,882,491,013**	**$5,753,941,065**	**$10,636,432,077**	**$7,861,005,807**	**0.62x**	**0.73x**	**1.34x**	**12.35%**

Diversification by Net Asset Value



Diversification by Potential Market Exposure[3]



See page 15 for notes.

Hewitt ennisknupp
An Aon Company

Private Markets Portfolio Performance (cont'd)

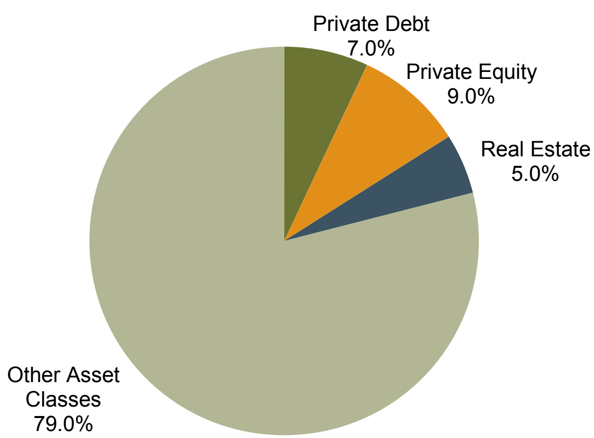
- As of March 31, 2014, the private markets portfolio had 118 commitments totaling $9.3 billion.
  - The private debt portfolio had 35 commitments totaling $3.9 billion.
  - The private equity portfolio had 58 commitments totaling $3.5 billion.
  - The real estate portfolio had 25 commitments totaling $1.9 billion.
- Since inception, the total private markets portfolio has paid-in capital of approximately $7.9 billion and received distributions totaling $4.9 billion. The current NAV of the private markets portfolio is $5.8 billion.
- The private markets portfolio's total value of $10.6 billion represents 1.34x paid in capital, which represents an increase in value as compared with 4Q 2013 where TVPI was 1.33x.
- As of March 31, 2014, the private markets portfolio has generated a net IRR from inception of 12.35% which is an increase over the prior quarter's net IRR of 12.24%.

Private Markets Asset Allocation
As of 3/31/2014

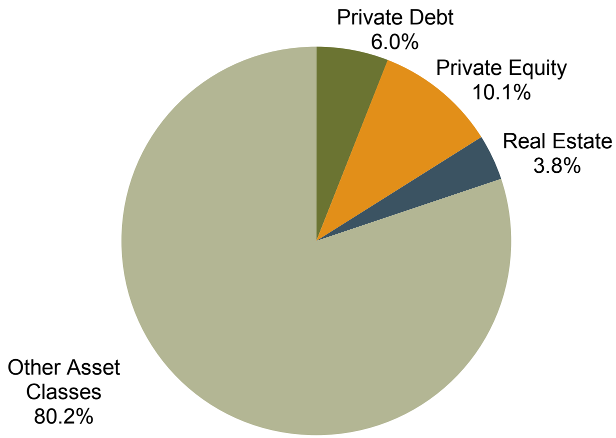
Total Program Size as of 3/31/2014: **$ 29,016,077,190**

Portfolio	Target Allocation	Commitments / Program Size	Unfunded Commitments[1] / Program Size	Net Asset Value / Program Size	Potential Market Exposure[3] / Program Size
Private Debt	7.0%	13.6%	2.6%	6.0%	8.5%
Private Equity	9.0%	12.0%	3.0%	10.1%	13.0%
Real Estate	5.0%	6.4%	1.7%	3.8%	5.5%
Total Private Markets	**21.0%**	**32.0%**	**7.3%**	**19.8%**	**27.1%**

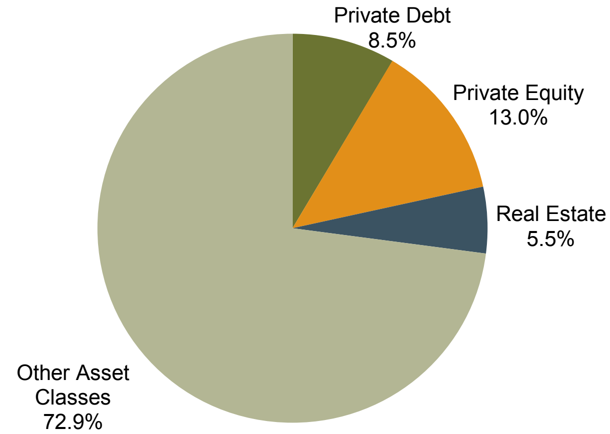
Target Allocation



Net Asset Value / Program Size



Potential Market Exposure[3] / Program Size



See page 15 for notes.

Hewitt ennisknupp
An Aon Company

Private Markets Asset Allocation (cont'd)

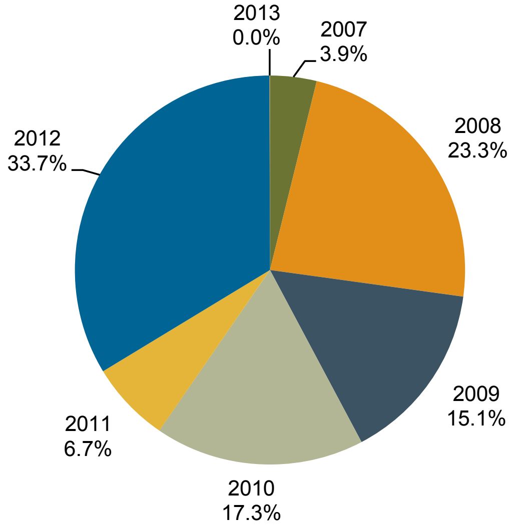
- As of March 31, 2014, the net asset value of the private markets portfolio accounted for 19.8% of the total program size, trailing the target allocation of 21.0%.
  - The private debt portfolio accounts for 6.0% of the total program size versus 6.0% at 12/31/2013.
  - The private equity portfolio accounts for 10.1% of the total program size versus 10.1% at 12/31/2013.
  - The real estate portfolio accounts for 3.8% of the total program size versus 4.0% at 12/31/2013.
- Utilizing the fourth quarter 2013 private markets portfolio data, Hewitt EnnisKnupp conducted a pacing analysis to determine the appropriate commitment pace for 2014.
  - The recommended annual commitment pace for 2014 was a range of $550.0 - $600.0 million for private debt, $700.0 - $750.0 million for private equity, and $250.0 - $300.0 million for real estate.
  - The annual commitment pace is designed to maintain vintage year diversification across the portfolios.
  - The pacing analysis assumes that exceeding the private markets target allocation of 21.0% in the short-run is acceptable.
- The annual commitment pace for 2015 is currently being reviewed.
  - HEK does not expect a significant difference in the annual commitment pace from the recommendation for 2014.

Private Debt Performance by Vintage Year

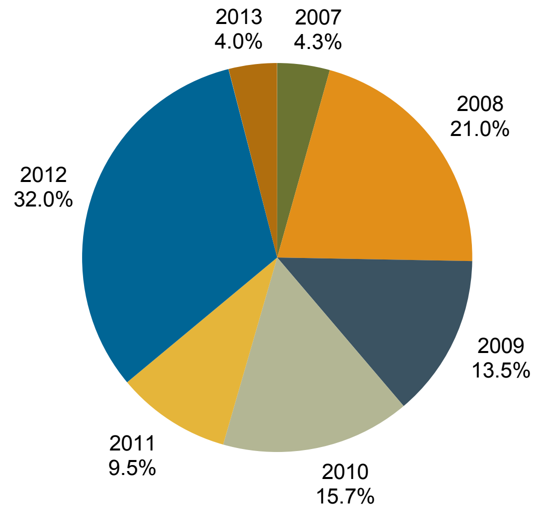
Inception to 3/31/2014

Vintage Year	Number of Commitments	Commitments	Unfunded Commitments[1]	Total Contributions	Total Distributions	Net Asset Value	Total Value[2]	Potential Market Exposure[3]	DPI[4]	RVPI[5]	TVPI[6]	Net IRR
2007	3	$280,000,000	$40,895,896	$254,705,309	$262,799,402	$66,786,379	$329,585,781	$107,682,275	1.03x	0.26x	1.29x	7.20%
2008	9	1,110,670,249	115,339,154	1,181,726,072	1,225,457,228	404,305,867	1,629,763,095	519,645,022	1.04x	0.34x	1.38x	12.74%
2009	9	1,038,538,890	73,426,111	1,010,845,573	1,144,171,611	260,963,908	1,405,135,519	334,383,820	1.13x	0.26x	1.39x	11.48%
2010	5	498,710,000	88,296,958	580,492,409	383,340,047	300,536,568	683,876,615	388,833,526	0.66x	0.52x	1.18x	10.28%
2011	3	222,189,050	118,350,190	112,210,933	17,215,528	116,536,636	133,752,165	234,863,354	0.15x	1.04x	1.19x	12.73%
2012	5	694,660,672	211,239,657	508,987,312	27,270,987	583,402,189	610,673,176	794,641,846	0.05x	1.15x	1.20x	24.74%
2013	1	99,000,000	99,000,000	0	0	579,412	579,412	99,579,412	N/A	N/A	N/A	N/A
Total Private Debt	**35**	**$3,943,768,861**	**$746,547,967**	**$3,648,967,609**	**$3,060,254,803**	**$1,733,110,959**	**$4,793,365,763**	**$2,479,629,255**	**0.84x**	**0.47x**	**1.31x**	**11.80%**

Diversification by Net Asset Value



Diversification by Potential Market Exposure[3]



See page 15 for notes.

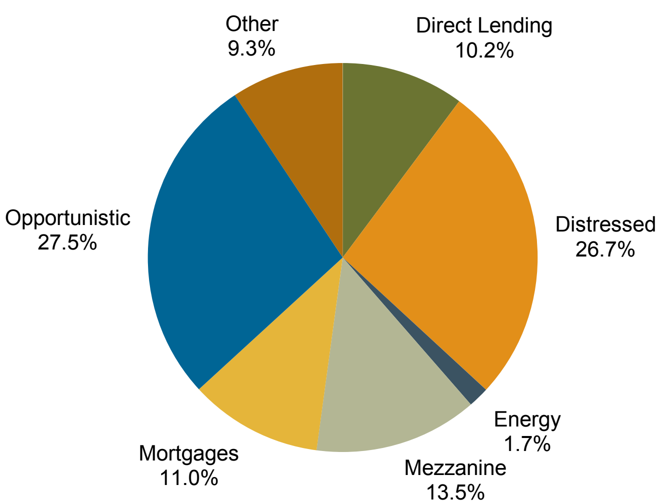
Hewitt ennisknupp
An Aon Company

Private Debt Performance by Strategy

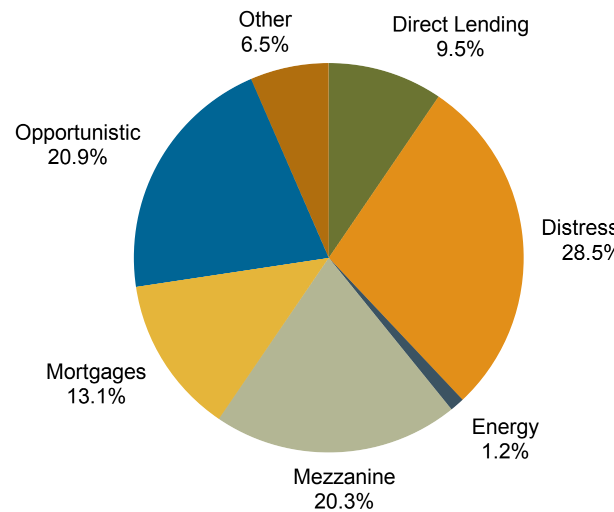
Inception to 3/31/2014

Strategy	Number of Commitments	Commitments	Unfunded Commitments[1]	Total Contributions	Total Distributions	Net Asset Value	Total Value[2]	Potential Market Exposure[3]	DPI[4]	RVPI[5]	TVPI[6]	Net IRR
Direct Lending	4	$340,525,000	$59,062,704	$295,890,071	$242,778,421	$176,590,515	$419,368,936	$235,653,219	0.82x	0.60x	1.42x	13.07%
Distressed	12	1,046,965,176	243,561,179	967,375,814	832,397,504	462,507,162	1,294,904,667	706,038,670	0.86x	0.48x	1.34x	14.37%
Energy	1	40,000,000	0	40,000,000	10,900,000	30,000,000	40,900,000	30,000,000	0.27x	0.75x	1.02x	0.47%
Mezzanine	7	553,590,000	269,671,372	365,823,904	234,708,811	234,674,930	469,383,741	504,346,302	0.64x	0.64x	1.28x	12.09%
Mortgages	9	1,166,938,685	133,179,592	1,225,200,940	1,407,829,385	191,196,522	1,599,025,908	324,376,114	1.15x	0.16x	1.31x	10.94%
Opportunistic	1	420,750,000	41,073,120	379,676,880	0	476,532,079	476,532,079	517,605,199	0.00x	1.26x	1.26x	29.63%
Other	1	375,000,000	0	375,000,000	331,640,681	161,609,751	493,250,432	161,609,751	0.88x	0.43x	1.32x	7.53%
Total Private Debt	**35**	**$3,943,768,861**	**$746,547,967**	**$3,648,967,609**	**$3,060,254,803**	**$1,733,110,959**	**$4,793,365,763**	**$2,479,629,255**	**0.84x**	**0.47x**	**1.31x**	**11.80%**

Diversification by Net Asset Value



Diversification by Potential Market Exposure[3]



See page 15 for notes.

Hewitt ennisknupp
An Aon Company

Private Debt Portfolio Performance

- The portfolio currently has 35 funds across the direct lending, distressed, energy, mezzanine, mortgages, opportunistic and other strategies.
- As of March 31, 2014, the net asset value of the private debt portfolio accounted for 6.0% of the total program size, which remained steady from December 31, 2013.
- The private debt portfolio NAV is heavily weighted toward 2008 and 2012 vintage years, representing 23.3% and 33.7% of the total portfolio NAV, respectively.
- The NAV of vintage year 2008 corresponds to the largest commitment level of $1.1 billion. The NAV of vintage year 2009 also corresponds to a higher commitment level of $1.0 billion; however, this vintage year experienced significant distributions during 2013 that resulted in a decrease in its weighting by NAV. Concurrently, the NAV of vintage year 2012 experienced a significant increase as a result of contributions paid-in during the year.
  - The result is a higher potential market exposure for 2008 and 2012 of 21.0% and 32.0% of the portfolio, respectively.
- As expected, the most mature vintages of 2007, 2008 and 2009 continue to generate the highest DPI ratios of 1.03x, 1.04x and 1.13x, respectively.
- Distressed funds continue to represent the highest potential market exposure of 28.5% across all strategies.

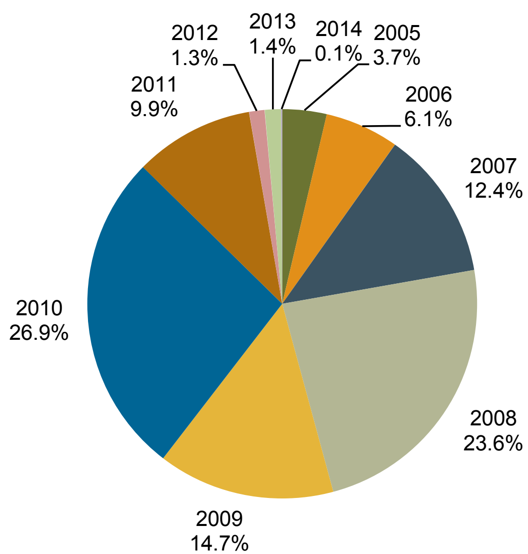
Hewitt ennisknupp
An Aon Company

Private Equity Performance by Vintage Year

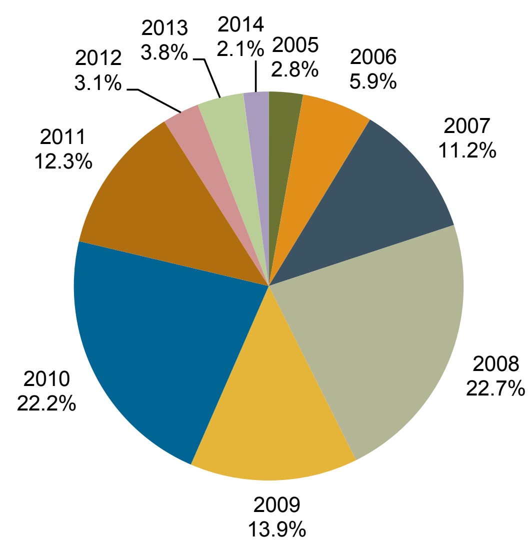
Inception to 3/31/2014

Vintage Year	Number of Commitments	Commitments	Unfunded Commitments[1]	Total Contributions	Total Distributions	Net Asset Value	Total Value[2]	Potential Market Exposure[3]	DPI[4]	RVPI[5]	TVPI[6]	Net IRR
2005	1	$100,000,000	$0	$101,553,160	$39,333,267	$107,144,511	$146,477,778	$107,144,511	0.39x	1.06x	1.44x	7.98%
2006	3	231,758,273	41,935,787	190,789,497	92,493,219	179,140,493	271,633,712	221,013,130	0.48x	0.94x	1.42x	9.96%
2007	7	425,949,050	61,740,451	384,523,992	156,327,550	362,325,607	518,653,157	424,012,895	0.41x	0.94x	1.35x	9.00%
2008	13	884,577,152	170,298,869	822,793,151	552,318,335	687,872,372	1,240,190,707	858,103,867	0.67x	0.84x	1.51x	16.10%
2009	12	548,537,272	97,399,962	480,035,001	237,483,684	428,192,193	665,675,877	525,592,155	0.49x	0.89x	1.39x	14.42%
2010	7	544,021,716	50,981,984	495,580,105	7,697,171	785,942,513	793,639,684	836,924,497	0.02x	1.59x	1.60x	18.43%
2011	9	429,826,057	176,440,788	256,653,246	46,363,695	289,015,779	335,379,474	465,437,040	0.18x	1.13x	1.31x	15.27%
2012	2	111,102,500	77,860,973	33,493,384	701,857	37,619,341	38,321,198	115,480,314	0.02x	1.12x	1.14x	20.73%
2013	3	140,000,000	104,735,567	39,004,604	4,758,259	39,805,775	44,564,034	144,541,342	0.12x	1.02x	1.14x	40.63%
2014	1	80,000,000	77,028,611	2,971,389	3,616	2,329,765	2,333,381	79,358,376	0.00x	0.78x	0.79x	-31.33%
Total Private Equity	**58**	**$3,495,772,019**	**$858,422,991**	**$2,807,397,530**	**$1,137,480,652**	**$2,919,388,349**	**$4,056,869,001**	**$3,777,608,126**	**0.41x**	**1.04x**	**1.45x**	**13.82%**

Diversification by Net Asset Value



Diversification by Potential Market Exposure[3]



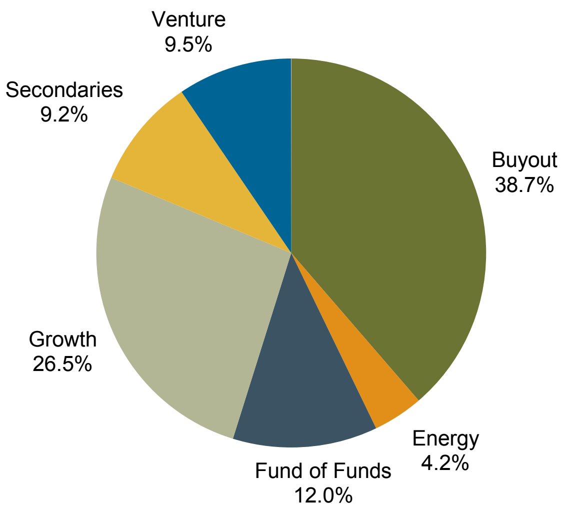
See page 15 for notes.

Private Equity Performance by Strategy

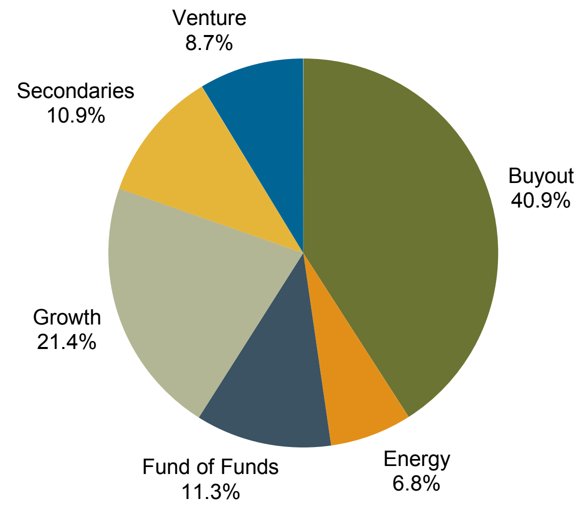
Inception to 3/31/2014

Strategy	Number of Commitments	Commitments	Unfunded Commitments[1]	Total Contributions	Total Distributions	Net Asset Value	Total Value[2]	Potential Market Exposure[3]	DPI[4]	RVPI[5]	TVPI[6]	Net IRR
Buyout	25	$1,504,574,183	$417,060,075	$1,196,340,960	$566,413,321	$1,128,794,432	$1,695,207,753	$1,545,714,443	0.47x	0.94x	1.42x	13.73%
Energy	4	258,077,458	134,739,425	126,596,358	37,049,905	121,749,338	158,799,243	256,488,764	0.29x	0.96x	1.25x	12.35%
Fund of Funds	4	401,358,273	75,900,931	345,934,090	110,744,408	350,296,020	461,040,428	426,133,800	0.32x	1.01x	1.33x	8.62%
Growth	9	564,950,856	34,299,180	531,926,714	125,210,523	773,272,006	898,482,530	807,571,186	0.24x	1.45x	1.69x	18.13%
Secondaries	6	480,625,000	145,145,320	363,254,959	221,666,923	268,119,723	489,786,646	413,265,043	0.61x	0.74x	1.35x	13.02%
Venture	10	286,186,250	51,278,060	243,344,449	76,395,572	277,156,830	353,552,402	328,434,890	0.31x	1.14x	1.45x	14.24%
Total Private Equity	**58**	**$3,495,772,019**	**$858,422,991**	**$2,807,397,530**	**$1,137,480,652**	**$2,919,388,349**	**$4,056,869,001**	**$3,777,608,126**	**0.41x**	**1.04x**	**1.45x**	**13.82%**

Diversification by Net Asset Value



Diversification by Potential Market Exposure[3]



See page 15 for notes.

Hewitt ennisknupp
An Aon Company

Private Equity Portfolio Performance

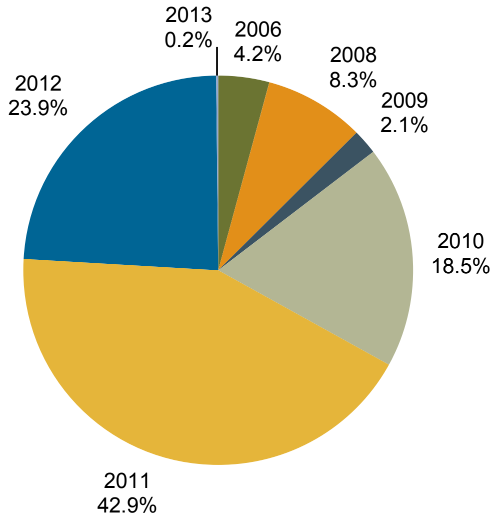
- The portfolio currently has 58 funds across the venture capital, growth equity, fund of funds, secondaries, energy, and buyout strategies.
- As of March 31, 2014, the net asset value of the private equity portfolio accounted for 10.1% of the total program size, which remained steady from December 31, 2013.
- The private equity portfolio NAV is driven by the 2008 and 2010 vintage years, which account for 23.6% and 26.9% of NAV, respectively. These vintage years also account for the largest potential market exposures of 22.7% and 22.2%, respectively.
- Also, we see that 2008, 2009, 2010, 2011 2012, and 2013 represent strong absolute performance according to net IRR, earning 16.10%, 14.42%, 18.43%, 15.27%, 20.73% and 40.63%, respectively. The 2008 and 2010 vintage years have the highest TVPIs of 1.51x and 1.60x, respectively.
- Aside from the relatively recent vintage years, the 2005 vintage year exhibits the lowest DPI of 0.39x; however, this does not have an overly significant impact on overall DPI, as it represents a single $100.0 million investment.
- Buyout and Growth funds together comprise over half of the portfolio according to net asset value (a combined 65.2%) and potential market exposure (a combined 62.3%). As of March 31, 2014, Buyout funds are generating a 13.73% net IRR, 1.42x TVPI and 0.47x DPI, while Growth funds are generating a 18.13% net IRR, 1.69x TVPI and 0.24x DPI.

Real Estate Performance by Vintage Year

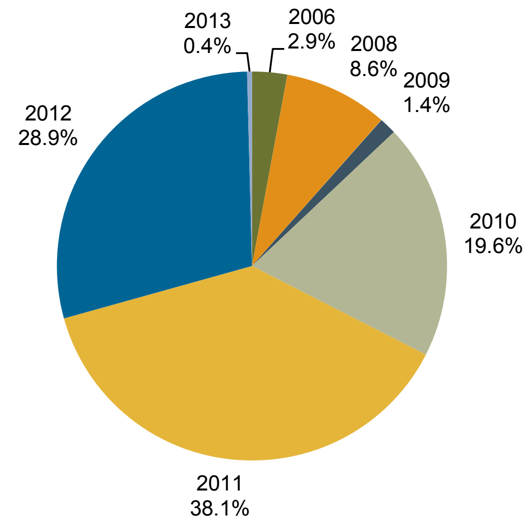
Inception to 3/31/2014

Vintage Year	Number of Commitments	Commitments	Unfunded Commitments[1]	Total Contributions	Total Distributions	Net Asset Value	Total Value[2]	Potential Market Exposure[3]	DPI[4]	RVPI[5]	TVPI[6]	Net IRR
2006	1	$149,700,000	$0	$74,662,006	$7,268,735	$46,604,749	$53,873,484	$46,604,749	0.10x	0.62x	0.72x	-5.38%
2008	6	315,606,794	46,718,951	273,902,658	286,116,026	91,492,792	377,608,818	138,211,743	1.04x	0.33x	1.38x	11.71%
2009	1	100,000,000	0	111,261,205	100,405,279	22,680,969	123,086,248	22,680,969	0.90x	0.20x	1.11x	4.14%
2010	4	318,810,000	110,585,064	264,863,834	129,004,107	203,359,308	332,363,415	313,944,371	0.49x	0.77x	1.25x	13.95%
2011	7	527,767,786	139,282,877	483,511,970	124,491,016	472,293,550	596,784,566	611,576,427	0.26x	0.98x	1.23x	14.95%
2012	5	435,000,000	201,094,960	266,095,122	37,470,395	263,113,346	300,583,741	464,208,306	0.14x	0.99x	1.13x	17.27%
2013	1	6,541,860	4,644,818	1,897,043	0	1,897,042	1,897,042	6,541,860	0.00x	1.00x	1.00x	0.00%
Total Real Estate	**25**	**$1,853,426,441**	**$502,326,670**	**$1,476,193,839**	**$684,755,557**	**$1,101,441,756**	**$1,786,197,313**	**$1,603,768,425**	**0.46x**	**0.75x**	**1.21x**	**9.89%**

Diversification by Net Asset Value



Diversification by Potential Market Exposure[3]



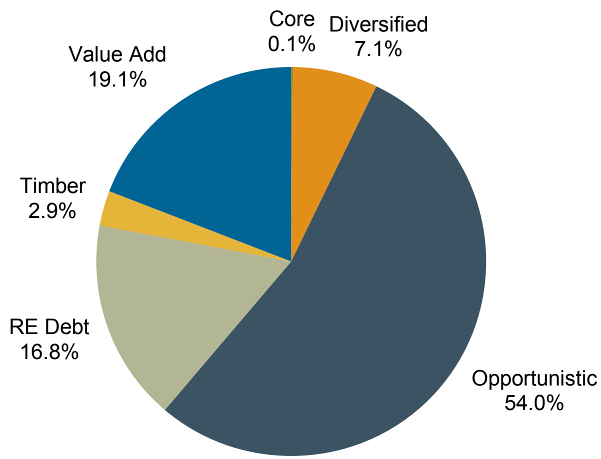
See page 15 for notes.

Real Estate Performance by Strategy

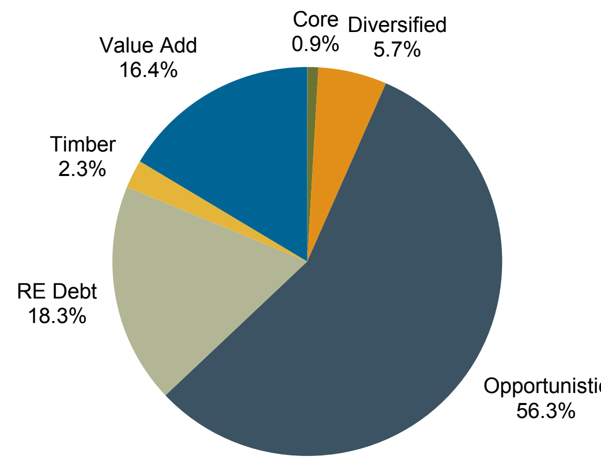
Inception to 3/31/2014

Strategy	Number of Commitments	Commitments	Unfunded Commitments[1]	Total Contributions	Total Distributions	Net Asset Value	Total Value[2]	Potential Market Exposure[3]	DPI[4]	RVPI[5]	TVPI[6]	Net IRR
Core	2	$103,685,085	$13,483,108	$90,201,977	$174,782,685	$1,194,986	$175,977,671	$14,678,094	1.94x	0.01x	1.95x	17.23%
Diversified	1	98,198,649	13,434,247	93,086,299	33,731,814	78,036,822	111,768,636	91,471,069	0.36x	0.84x	1.20x	9.90%
Opportunistic	14	953,982,706	308,430,015	672,809,877	163,369,252	594,869,712	758,238,964	903,299,726	0.24x	0.88x	1.13x	6.49%
RE Debt	5	442,560,000	108,932,509	402,135,999	277,007,627	184,696,958	461,704,585	293,629,467	0.69x	0.46x	1.15x	7.31%
Timber	1	30,000,000	5,673,522	24,326,478	0	31,946,236	31,946,236	37,619,758	0.00x	1.31x	1.31x	13.57%
Value Add	2	225,000,000	52,373,270	193,633,209	35,864,179	210,697,042	246,561,221	263,070,312	0.19x	1.09x	1.27x	18.98%
Total Real Estate	**25**	**$1,853,426,441**	**$502,326,670**	**$1,476,193,839**	**$684,755,557**	**$1,101,441,756**	**$1,786,197,313**	**$1,603,768,425**	**0.46x**	**0.75x**	**1.21x**	**9.89%**

Diversification by Net Asset Value



Diversification by Potential Market Exposure[3]



See page 15 for notes.

Hewitt ennisknupp
An Aon Company

Real Estate Portfolio Performance

- The real estate portfolio NAV is primarily driven by allocations to Opportunistic and Value Add, which account for 54.0% and 19.1% of NAV, respectively.
- As of March 31, 2014, total real estate performance improved slightly over the previous quarter as the since inception net IRR moved from 9.77% to 9.89% and the net equity multiple moved from 1.20x to 1.21x.
- Opportunistic investments experienced the biggest increase over the previous quarter going from a 5.06% net IRR and a 1.09x net equity multiple to a 6.49% net IRR and a 1.13x net equity multiple.
  - Despite the positive movement, Opportunistic continues to be the laggard to date; however, many of the underlying investments were made recently and are impacted by the J-Curve effect.
  - Performance continues to improve as investments call more capital and mature (71% called as of March 31, 2014).
- Core investments have generated the best performance by multiple since inception, earning a 1.95x net equity multiple.
- Only the 2006 vintage year is exhibiting negative performance, generating a -5.38% net IRR and an 0.72x net equity multiple.

Hewitt ennisknupp
An Aon Company


340
350
N
10
20
30
40
50
60
70
80
E
100
110
120
130
JAMAICA
Georgetown
Tampa

Notes

Notes

1. Unfunded Commitments include recallable distributions.
2. Total Value = Total Distributions + Net Asset Value
3. Potential Market Exposure is calculated as Net Asset Value + Unfunded Commitments. This is intended to show what the exposure would be to any given investment or strategy if all unfunded commitments were called by the investment managers prior to making any distributions.
4. DPI = Total Distributions / Total Contributions
5. RVPI = Net Asset Value / Total Contributions
6. TVPI = Total Value / Total Contributions

SOUTH CAROLINA RETIREMENT SYSTEM INVESTMENT COMMISSION

STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

As amended and adopted on ~~September 26, 2013~~ __________, 2014

TABLE OF CONTENTS

Formatted: Space Before: 0 pt

Formatted: Space Before: 0 pt

I. INTRODUCTION

A. OVERVIEW

The South Carolina Public Employee Benefit Authority ("PEBA") and the State Budget and Control Board are co-trustees of the South Carolina Retirement Systems ("Retirement System"), defined as the South Carolina Retirement System, Retirement System for Judges and Solicitors, Retirement System for Members of the General Assembly, National Guard Retirement System, and Police Officers Retirement System established pursuant to Chapters 1, 8, 9, 10 and 11 of Title 9. The funds and assets of the Retirement System are not funds of the State, but are instead held in trust as provided in Section 9-16-20.

The Retirement System Investment Commission ("Commission" as the governing body, "RSIC" as the agency) was created in 2005 and has the exclusive authority to invest and manage all assets of the Retirement System pursuant Section 9-16-20.

B. MISSION

The Commission will fulfill its fiduciary responsibility by prudently managing all assets held in trust for the sole benefit of the participants and beneficiaries of the South Carolina Retirement Systems. It will seek superior long-term investment results at a reasonable level of risk.

C. VISION

The vision of the Commission is to be a world class investment organization that pursues strategies that contribute positively to the financial health of the Retirement System.

D. PURPOSE

The purpose of the Statement of Investment Objectives and Policies ("SIOP") is to establish investment and performance objectives, policies and guidelines, roles, responsibilities, and delegation of authority for the management of assets of the Retirement System. The SIOP represents the overall guidelines that apply to the Retirement System's Total Portfolio ("Portfolio"). All decisions that affect the management of the Portfolio must comply with the guidelines contained within this document and be consistent with the laws of the State of South Carolina.

At least annually, the Commission will review the SIOP to determine its continued applicability. If the liquidity needs, actuarial return assumptions, or the market risk/return expectations change, the SIOP will be reassessed in accordance with South Carolina law and Commission objectives. The relevant portion of the SIOP may constitute parts of the Annual Investment Plan ("AIP") pursuant to Section 9-16-50(B)~~330~~. The Commission adopts the SIOP, in its entirety, into the AIP in accordance with Section 9-16-50(B) and 9-16-330(B).

Formatted: Space After: 0 pt

Commented [SS1]: Investment Beliefs

II. GENERAL OPERATING POLICIES

A. ROLES AND RESPONSIBILITIES

The following section outlines the roles and responsibility for each party associated with administration and management of the assets for the Retirement System.

1) PEBA administers a comprehensive program of retirement benefits, performing fiduciary duties as stewards of the contributions and disbursements for the Retirement System. PEBA has the responsibility of producing GAAP basis financial statements for the Retirement Systems and maintains a general ledger to support that process. The financial statements that are produced by PEBA contain information regarding the investments made by the Investment Commission and as such contain the official accounting records for the Retirement Systems. The financial statements are presented in accordance with Generally Accepted Accounting Principles (GAAP) and comply with the Governmental Accounting Standards Board (GASB) standards. The financial statements are audited annually by an independent audit firm hired by the State Auditor's Office.

2) The State Treasurer is the custodian of the funds of the Retirement System.

~~2)~~3) The South Carolina General Assembly has the authority to control budget and staffing for the RSIC (S.C. Code Ann. §2-7-60) and to set the actuarial assumed rate of return for the RSIC Portfolio (S.C Code Ann. §9-16-335)

~~3)~~4) In 2005, t~~T~~he Commission was established by South Carolina law to invest and manage all assets of the Retirement System. The RSIC is under the management of the seven member Commission. The Commission's fiduciary responsibilities are addressed in its Governance Policies, include authorizing investment decisions and overseeing the management of the business affairs of the RSIC, in accordance with applicable laws, ensuring legal and ethical integrity, adhering to fiduciary standards, and maintaining accountability.

~~4)~~ The Commission employs an Executive Director (ED) and a Chief Investment Officer ("CIO"). The Commission's Governance Policies set forth the roles and responsibilities of the ED and CIO. ~~to implement the investment directives of the Commission, and an Chief Operating OfficerExecutive Director ("COOED") to implement the administrative and operational directives of the Commission. The CIO and COOED are responsible for oversight of the RSIC staff ("Staff") and for managing day-to-day operations of the RSIC.Pursuant to Commission policies, the CIO and COOED may delegate responsibilities to appropriate Staff, provided that such delegation is consistent with the policies approved by the Commission. The CIO and Investment Staff manages the investment functions to implement the Commission's investment decisions, including asset allocation, risk management, investment manager oversight, and other related investment functions, such as establishing and modifying investment guidelines in keeping with the Commission's approval, the SIOP, and applicable law. The COOED and non-investment staff manages the administrative, legal, compliance, and operational functions of the RSIC.~~

Formatted: Space After: 0 pt

Formatted: Condensed by 0.1 pt

Formatted: Left, Indent: Left: 0.5", Space After: 10 pt, Line spacing: Multiple 1.15 li, No bullets or numbering

Formatted: Space After: 0 pt

Formatted: Indent: Left: 0.75"

5) The Commission engages an external general investment consultant ("Consultant"), who is accountable to the Commission, to work collaboratively with RSIC staff. Services provided by the Consultant are detailed in the engagement contract and generally include, but are not limited to, recommended asset allocation, asset/liability study, investment due diligence, performance reporting, benchmarking/peer group comparisons, guidance pertaining to governance issues, and analyst resources pertaining to any manager search process or ongoing due diligence. RSIC staff may rely on the Consultant for manager searches, operational due diligence, third party manager opinions, data resources, external analyst inputs, and access to industry conferences or educational materials.

6) The Internal Audit ~~and Compliance~~ department reports directly to Audit Committee which was established by the Commission. The mission of the department is to provide independent, objective assurance and recommendations designed to add value and improve RSIC operations. It assists the entity in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

~~6)~~7) The Enterprise Risk Management and Compliance (ERM and Compliance) department reports directly to Audit Committee. ERM and Compliance is ~~is~~ charged with coordinating the assessment and providing oversight related to the identification and evaluation of major strategic, operational, regulatory, informational, and external risks inherent in the business of the RSIC. ERM and Compliance is also responsible for overseeing the process for monitoring compliance with RSIC policies and applicable laws, as appropriate.

~~7)~~8) External managers[1] are engaged to implement specific strategies on the Retirement System's behalf. The investment managers have discretion to manage specific investment strategies to meet the policy objectives and guidelines.

~~8)~~9) Staff manages and invests certain assets directly, or internally. Staff is responsible for adhering to the investment policy objectives and guidelines for those assets.

B. PRIMARY POLICIES

The Commission, the Staff, and the Consultant work jointly to design and implement operating and investment policies. These primary policies include the set of governance policies, internal operating policies, the SIOP, and the AIP. These policies are subject to revision, and several require adoption by the Commission.

1) Governance Policies
The Commission will revise the Governance Policies as needed. The Commission anticipates an in-depth review and revisions to the Governance Policies every three years. The Governance Policies include the following components:

[1] For purposes of the SIOP, references hereafter to "manager" will include an investment manager, investment advisor, general partner, managing member, or fund, as applicable.

Formatted: Space After: 0 pt

Formatted: Left, Indent: Left: 0.5", Space After: 10 pt, Line spacing: Multiple 1.15 li, No bullets or numbering, Adjust space between Latin and Asian text, Adjust space between Asian text and numbers

Formatted: Space After: 0 pt

Formatted: Space After: 0 pt, Line spacing: single

- Commission Roles and Responsibilities
- Chairman and Vice-Chairman Roles and Responsibilities
- CIO and ~~COO~~ED Roles and Responsibilities
- Commission Operations
- Executive Staff and Commission Evaluations
- Committees
- Communications
- Service Provider Selection Policy

2) Internal Operational Policies
The ~~COO~~ED is responsible for designing, implementing, and monitoring operating policies and procedures. The ~~COO~~ED may delegate certain items to Staff. The primary operating policies include the following:

- Memorandum of Understanding with PEBA
- Personnel Policies
- Information Technology Policies
- Administrative Policies (travel, purchasing, etc.)

3) SIOP and AIP

Annually, the Commission adopts the SIOP, which provide the objectives, policies, and guidelines for investing the assets of the Retirement System. The SIOP provides the framework pursuant to which the CIO and Staff draft the AIP. The purpose of the AIP is to provide a formal plan for investing the Retirement System's assets to achieve the Commission's investment objectives and mission. South Carolina law §9-16-320 requires the CIO to submit the proposed AIP to the Commission no later than April 1st of each year, and the Commission must meet no later than May 1st of each year to adopt the proposed AIP for the following fiscal year. The Commission may amend the AIP during the fiscal year as it deems appropriate.
The Commission authorizes the CIO to implement the approved AIP, as designated herein and in the SIOP, through a standardized process that is guided by an Internal Investment Committee ("IIC"). The IIC, chaired by the Chief Investment Officer, makes investment recommendations to the Commission. The IIC directs a process whereby Staff, the Consultant, and third party subject matter experts review both current investments and new investment prospects with respect to the Portfolio's goals and constraints. Due diligence is performed on both investment strategy and operations (for external managers) according to the due diligence guidelines as developed by Staff. Ongoing due diligence for approved managers and/or strategies is conducted by Staff according to the due diligence guidelines.

The CIO has final internal authority over all Staff investment recommendations that are submitted to the Commission. In addition, the Commission authorizes the CIO to manage the Portfolio in a prudent manner given prevailing market conditions and the status of any individual investment within the established guidelines and processes. The CIO is accountable to the Commission for investment actions that deviate from the normal process.

Formatted: Space After: 0 pt, Line spacing: single

Formatted: Indent: Left: 0.5", Hanging: 0.25"

Formatted: Hidden

C. GENERAL POLICIES AND PROCEDURES FOR HIRING CONSULTANTS, PROFESSIONAL SERVICES, AND INVESMENT MANAGERS

In addition to State processes and applicable law, the Commission has adopted a Service Provider Selection Policy to govern the selection, monitoring, and reporting of RSIC's service providers. The policy does not include or apply to associate legal counsel, which may be retained upon approval by and in accordance with the procedures required by the South Carolina Attorney General. According to the Commission's policy, service providers are classified in two general categories: Named Service Providers and Other Service Providers.

Named Service Providers include investment managers/advisors, investment consultants, consultants retained for non-investment related matters (e.g. recruiting firms), financial and/or actuarial professionals for services relating to the RSIC and/or investments, and other service providers as deemed appropriate by the Commission. The ~~COO~~ED and CIO are responsible for coordinating and/or conducting all necessary due diligence relating to the engagement of Named Service Providers and making recommendations to the Commission. The Commission reviews and approves the selection of Named Service Providers.

Other Service Providers include providers of investment analysis tools, operational service providers, technical support assistance, and other service providers as appropriate. Unless the Commission determines otherwise, the ~~COO~~ED and CIO will be responsible for engaging and terminating service providers other than Named Service Providers. In selecting a service provider, the Commission, ~~COO~~ED, and CIO, as applicable, will consider as broad a universe of qualified service providers as is practical and reasonable given the budgetary, staffing, time, and other relevant factors in accordance with the South Carolina Procurement Code and Commission policies.

All service providers are subject to regular and appropriate monitoring throughout the term of the engagement. Criteria for review may include performance, Staff satisfaction, competitiveness of fees/costs, quality of reporting, compliance with contractual terms and other criteria deemed appropriate for the engagement. The ~~COO~~ED, CIO or Consultant, as applicable, are responsible for informing the Commission of any material issues or actions taken pertaining to service providers. Monitoring and reporting is conducted on an individual basis based on the nature of the provider and/or services and in accordance with the contract, Commission policies, and applicable law. Termination of a contract with a service provider may be based on factors including, but not limited to, compliance with the terms of the engagement, laws or regulatory standards.

Service providers, including consultants and investment managers, will be compensated commensurate with the services provided and industry practices. The Commission will pursue cost savings through structural efficiencies and will strive for fee reductions through negotiations.

Investment fees will be evaluated based on their cost relative to passive exposures, the manager's skill for capturing risk premium, and relative to industry/peer standards. Staff gathers actual fees and provides annual public disclosure of all fees paid to external managers. The Consultant has been tasked with a fee analysis and peer comparison report upon which future perspectives and decisions may depend.

Operating expenses applicable to internal investment operations and the general business of the RSIC are managed by the ~~COO~~ED within the parameters of the annual budget as approved by the General Assembly.

Both service providers and managers are hired through contractual engagements, which have a terminal date or event. The Commission may terminate a service provider or manager subject to the terms of the contractual arrangement for a variety of reasons to include, but not limited to, breach of contract, change of services required, or for performance reasons.

Termination of a manager may occur whenever the Commission determines that its objectives can more efficiently or effectively be met by the selection of another manager or under a different management mandate. The Commission retains the right to terminate a manager with or without cause and at any time. It should be noted that termination rights may not apply to certain types of investment structures (e.g. typical private markets funds). Circumstances which suggest an immediate review and a possible termination include, but are not limited to:

1) Manager changes strategy or investment style;
2) Critical elements of the investment process have deteriorated;
3) Transaction costs are unreasonable;
4) Management fees are higher than similarly styled managers for similarly sized portfolios;
5) Manager is unable to meet the performance expectations within the risk tolerance specified;
6) Material organizational or personnel changes;
7) Manager is not complying with the applicable provisions of the Commission's SIOP;
8) Manager is not complying with the applicable provisions of the Commission's AIP.

Formatted: Tab stops: Not at 0.14"

III. INVESTMENT POLICIES

The assets of the Portfolio should be invested and managed based on the specific and unique set of goals, needs and circumstances of the Plan, to include consideration of the liabilities, liquidity, funded statues, actuarial required rate of return, limitations imposed by applicable law, and current and expected economic and market conditions. The RSIC incorporates and relies on acceptable investment theory and principles when developing investment policies for the Portfolio. This policy defines the goals, objectives and guidelines of the investment program.

A. INVESTMENT OBJECTIVES

The Commission's objective is to earn the most appropriate risk-adjusted return in consideration of the specific goals, needs and circumstances of the Retirement System, and to act in the exclusive interest of the members of the Retirement System. The Portfolio will be invested with a long-term horizon, and structured to seek to achieve the following objectives:

1) A diversified portfolio that achieves a rate of return greater than the actuarially assumed rate of return
2) A rate of return greater than that of the Policy Asset Allocation return while maintaining a similar risk profile
3) A rate of return for each asset class greater than its benchmark return with a prudent level of risk
4) Maintain sufficient liquidity to pay benefits in a timely manner
5) Optimize the implementation of the asset allocation in an efficient manner

B. ASSET ALLOCATION

Formatted: Space Before: 0 pt

Among the decisions the Commission can make, asset allocation ~~potentially~~ has the most significant impact on the Portfolio's return and risk profile. Diversification at both the Portfolio and manager level is a key component to managing risk. Active rebalancing generates costs such as trading commissions, market impact, and potential market timing costs. These costs are to be taken into consideration when developing a plan to rebalance the Portfolio.

In addition to performance expectations, the implementation decision is based on accessibility of markets, cost of implementation, and expected market efficiency. The Commission will use a combination of internal and external managers, as well as active, enhanced, or passive strategies to implement the asset allocation. Exposure may be obtained in derivative, cash, or physical markets.

Relative to the investment horizon, the Commission will typically invest with a long-term perspective. However, the Commission may also implement shorter-term investment strategies to mitigate the impact of expected market dislocations or to exploit market opportunities.

Based on the Commission's determination of the appropriate risk tolerance for the Portfolio and its long-term return expectations, it has authorized the following Policy Asset Allocation, including target allocations and ranges for each asset class that became~~is~~ effective as of July 1, 201~~3~~43 and were reaffirmed by the Commission for the fiscal year beginning on July 1, 2014.

	Policy Allocation	Minimum	Maximum
Global Equity:	**40.0%**	**30.0%**	**45.0%**
Global Public Equities	31.0*%	25.0%	37.0%
Private Equity	9.0%	6.0%	12.0%
Real Assets:	**8.0%**		
Commodities	3.0%*	0.0%	6.0%
Real Estate	5.0%	2.0%	8.0%
Opportunistic:	**18.0%**		
GTAA/Risk Parity	10.0%*	7.0%	13.0%
Hedge Funds (low beta)	8.0%*	5.0%	11.0%
Diversified Credit:	**19.0%**		
Mixed Credit (HY, Loans, Structured)	6.0%*	3.0%	9.0%
Emerging Markets Debt	6.0%*	3.0%	9.0%
Private Debt	7.0%*	4.0%	10.0%
Conservative Fixed Income:	**15.0%**	**10.0%**	**25.0%**
Core Fixed Income	7.0%	4.0%	10.0%
Global Fixed Income	3.0%	0.0%	6.0%
Short-Duration (net of overlays)	3.0%	0.0%	6.0%
Cash (net of overlays)	2.0%	0.0%	5.0%

Pursuant to S.C. Code Ann. §9-16-340(B), this policy must also include the minimum and maximum allocations to equity investments on an ongoing basis, not to exceed 70 percent. The statute does not stipulate whether the limitation of 70 percent is based on cost or market value, and the Commission manages this limitation on a cost basis. Therefore, in the event that the allocation to equity investments exceeds 70 percent solely due to an increase in value of those investments, the CIO is not required to rebalance the Portfolio taking into consideration transaction costs and market conditions, but must advise the Commission at its next regularly scheduled meeting.

C. LONG-TERM EXPECTED RETURN AND RISK ASSUMPTIONS

Formatted: Space Before: 0 pt

The Consultant conducted a scenario analysis in 201~~3~~4 to arrive at expected performance and expected risk from the above proposed policy based upon both 10- and 30-year capital market assumptions. According to the Consultant's scenario analysis, the Plan's expected return and risk are:

1) 10-Years: Expected return: 7.2~~1~~4%; expected risk: 11.01~~5~~4%
2) 30-Years: Expected return: 7.80~~6~~8%, expected risk: 11.57~~0~~4%

Formatted: Space After: 0 pt, Line spacing: single

~~HEK~~The Consultant's~~The~~ 10-year capital market assumptions for each asset class provided by the consultant to the Commission in 2014 are presented below:

Formatted: Font: +Body (Calibri), 11 pt

		Expected Real Return[1]	Expected Nominal Return[1]	Expected N[illegible] Volatility
1	Large Cap U.S. Equity	4.9%	7.1%	19.0%
2	Small Cap U.S. Equity	5.1%	7.3%	25.0%
3	Global Equity (Half-Diversified)	5.3%	7.5%	19.5%
4	International Equity (Developed, Half-Diversified)	5.1%	7.3%	20.5%
5	Emerging Markets Equity	6.7%	8.9%	28.5%
6	Cash (Gov't)	0.4%	2.5%	1.5%
7	Cash (LIBOR)	0.6%	2.7%	1.5%
8	TIPS	0.6%	2.7%	4.5%
9	Core Fixed Income (Market Duration)	1.2%	3.3%	4.0%
10	Long Duration Bonds – Gov't / Credit	1.7%	3.8%	9.5%
11	Long Duration Bonds – Credit	2.2%	4.3%	11.0%
12	Long Duration Bonds – Gov't	1.2%	3.3%	9.0%
13	High Yield Bonds	2.4%	4.6%	14.0%
14	Bank Loans	2.2%	4.3%	7.0%
15	Non-US Developed Bond (0% Hedged)	0.6%	2.7%	10.0%
16	Non-US Developed Bond (50% Hedged)	0.8%	2.9%	6.0%
17	Non-US Developed Bond (100% Hedged)	0.6%	2.7%	3.0%
18	Emerging Market Bonds	3.1%	5.3%	12.0%
19	Hedge Funds Universe[2]	3.0%	5.2%	8.0%
20	Real Estate (Broad Market)	5.0%	7.2%	14.5%
21	Core Real Estate	4.0%	6.2%	12.5%
22	Global REITs	4.4%	6.6%	20.5%
23	Commodities	2.6%	4.8%	19.0%
24	Private Equity	7.1%	9.3%	26.0%
25	Infrastructure	5.6%	7.8%	16.5%
26	Inflation	0.0%	2.1%	1.0%
27	Intermediate Corporate Bonds (4-Year Duration)	1.3%	3.4%	3.5%
28	30-year Government Bond	0.8%	2.9%	15.0%
29	Emerging Market Bonds (Corporate USD)	3.3%	5.5%	12.0%
30	Emerging Market Bonds (Sov. Local)	4.4%	6.6%	14.0%
31	Broad Hedge Funds[3]	4.6%	6.8%	8.0%

D. ALLOWABLE INVESTMENTS

The assets of the Retirement System may be invested in those investments pursuant to Section 9-1-1310. These investments include, but are not limited to, futures, forward contracts, swaps, and options, equities, bonds, loans, 144(A)'s, exchange traded funds, American Depository Receipts, real property, and real estate investment trusts. These investments may be listed, exchanged traded, or over the counter, negotiated contracts or investments.

The investments must be made per the terms of each manager's specific governing documents and in accordance with the limitations outlined in the SIOP and AIP. In certain cases, leverage may be utilized in the implementation of these asset classes in accordance with each manager's specific governing documents and in keeping with the investment limitations outlined in this policy. Currency hedges may also be used for non-dollar exposures within each respective asset class as outlined in each manager's governing document. Other portfolio hedges may be used to mitigate risk or gain certain exposure within the portfolio.

In addition to the instruments outlined in the paragraph above, for every asset class, a variety of investment structures may be utilized depending on the nature of a particular investment. In accordance with the terms of the investment limitations outlined in this policy, these structures may include, but not be limited to, mutual funds, limited partnerships, limited liability companies, strategic partnership, trusts, commingled vehicles, fund-of-funds, and separately managed accounts[2] in which assets may be held by an external custodian who is selected and monitored by the external manager or general partner.

1) Restricted Investments:

a. Terrorist Sponsors: The Commission will not invest in any security or obligation issued by a company or a corporation that is a known sponsor of terrorist organizations or of a company domiciled in a country that is a recognized sponsor of terrorism or terrorist organizations as based on reports from the Office of Terrorism and Financial Intelligence of the Department of Treasury and the Country Reports on Terrorism by the Office of the Coordinator for Counterterrorism of the U.S. Department of State.

b. Sudan and Iran Divestment Laws: The managers of the Portfolio's accounts **other than** index funds, commingled funds, limited partnerships, derivative instruments or the like are required to assist the Commission in meeting its obligations under the following laws:

(1) S.C. Code Ann. §~~Section~~ 9-16-55 sets forth limitations on investment in certain types of companies that are engaged in active business operations in Sudan.

~~b.~~(2) S.C. Code Ann. §11-57-10 et seq. sets forth limitations on investment in certain types of companies that are engaged in business operations in Iran.

Formatted: Space After: 0 pt

Formatted: Font: Bold

Formatted: Space After: 0 pt, Numbered + Level: 1 + Numbering Style: 1, 2, 3, … + Start at: 1 + Alignment: Left + Aligned at: 1" + Indent at: 1.25"

E. GENERAL PROVISIONS RELATING TO THE ALTERNATIVE INVESTMENT PROGRAM

Formatted: Space After: 0 pt, Line spacing: single

South Carolina law, the Employee Retirement Income Security Act of 1974 ("ERISA"), and the Uniform Management of Public Employee Retirement Systems Act of 1997 ("UMPERSA") each have similar or compatible, albeit not identical, definitions and responsibilities of fiduciaries with respect to managing and investing assets of retirement systems. For clarity and consistency it is prudent for the Commission to declare standards for interpretation of certain terms used in these sources.

For purposes of investments by, and implementation of, the Alternative Investment Program, the "Plan Assets" of the Retirement System include the System's ownership interest in the following entities (e.g., a share or a unit), but do not include the underlying assets owned by the entity itself:

1) A registered investment company;
2) A registered security that is widely held and freely transferable;
3) an entity in which "benefit plan investors" hold less than 25% of the equity interest as defined and determined by ERISA §3(42);
4) An "operating company" engaged in the production or sale of a product or service other than the investment of capital;
5) A "real estate operating company" or REOC (which actively manages and develops real estate consistent with U.S. Department of Labor ERISA regulations);

Formatted: Space After: 0 pt

[2] For purposes of the SIOP, reference hereafter to "fund" will include a limited partnership, limited liability corporation, or commingled vehicle, as applicable.

6) A “venture capital operating company” or VCOC (which actively manages “venture capital investments” consistent with U.S. Department of Labor ERISA regulations);
7) A private investment partnership or offshore investment corporation the offering memorandum of which allows for the entity to take both long and short positions, use leverage and derivatives, and invest in many markets.

Where the Commission invests in an entity that does not hold Retirement System’s assets, the Commission’s decision to invest in the entity will be subject, inter alia, to the South Carolina fiduciary rules set forth in S.C. Code Ann. §9-16-10 et seq., and the ethics laws set forth in S.C. Code Ann. §8-13-110 et seq., but the transactions engaged in by the entity generally will not be subject to the same rules.

On occasion, the Commission will need to interpret statutes while implementing and administering the investment program. Whenever the South Carolina statutes are substantively similar to provisions of ERISA or UMPERSA, and to the extent practicable and consistent with South Carolina law and other principles of general application relating to public pension plans, the Commission intends to use (1) pertinent provisions of ERISA; (2) interpretive rules and regulations of the U.S. Department of Labor relating to ERISA; and (3) the Reporter’s official comments to UMPERSA for guidance.

F. REBALANCING AND EXPOSURE MANAGEMENT

Formatted: Space After: 0 pt, Line spacing: single

The asset, sub-asset and manager allocations will be reviewed, at least quarterly, by Staff to determine whether the Portfolio is within its allocation ranges. The Commission delegates to the CIO or his designee the authority to execute manager and/or securities transactions to implement rebalancing, cash management, or other authorized investment strategies within target ranges.

The spirit of this Policy is to implement the investment strategy at a reasonable cost within the targets and ranges established by the Commission, recognizing that constant rebalancing to the exact target is not economically justified. Therefore, in some cases, no action will be the appropriate response. However, when an allocation reaches its minimum or maximum allocation, Staff must initiate rebalancing transactions to keep allocations within the approved ranges. Otherwise, Staff will seek Commission approval to remain outside the ranges.

1) Overlay Program: exposure from the overlay program where cash is used as collateral (“securitization of cash”) is assigned to the respective sub-asset class level for measuring the asset allocation. Cash exposure and cash for paying day-to-day expenses and benefits is not securitized, and is reflected in the Cash (net of overlays) line item in the Asset Allocation Table.
2) Private Markets: While the range for the total Private Market exposure (Private Equity, Private Debt, and Real Estate) is 12% to 30%, the target invested capital exposure is 21%. Staff will rely on the pacing schedule maintained by the Consultant for the private markets commitments in order to attempt to remain near the invested target of 21%.
3) Hedge funds: Hedge funds may be used within the Opportunistic, Global Equity, Real Assets and Diversified Credit asset classes. In total, hedge fund exposures shall not exceed 15% of the Portfolio assets.

Formatted: Space After: 0 pt, Line spacing: single

4) Manager level: Concentration risk with respect to significant reliance on any single external manager is reviewed regularly by Staff. Mitigation of the risks associated with operational, headlines/reputational, performance, or fiduciary related issues, the effects of which are more significant with larger allocations, is managed prudently by maintaining a diversified allocation policy within each asset class.
Given the size of the Portfolio, RSIC Staff must balance the risks noted above with the simplicity and economic benefits associated with fewer managers at larger allocations. Additional perspectives such as the costs/benefits of passive vs. active market exposure and the expanding capabilities to implement the strategies directly via internal asset management are becoming increasingly more important.

At the total Portfolio level, external manager limits are applied to three categories according to the nature of the investment mandate: Specialty Mandates, Broad Mandates, and Private Markets (including Strategic Partnerships). The category limits, and examples of each category's components, are:

a. Broad Mandates: 7.5% of total Portfolio assets. Examples include Global Equities, Core Fixed Income, Global Fixed Income, ~~and~~ Global Asset Allocation, and enhanced strategies~~indexes~~.
b. Specialty Mandates: 4.0% of total Portfolio assets. Examples include Specialty Equities, Credit, Emerging Markets Debt, Emerging Markets Equity, and Hedge Funds.
c. Private Markets Mandates: These mandates will be at the dollar commitment as approved by the Commission. This includes approved capacity to Strategic Partnerships.

The allocation limits are not applicable to cash, ~~or internally managed passive, enhanced index~~ passive mandates, or ~~"Beta" implementations which are currently primarily implemented via the overlay account~~other beta implementations.

G. RISK MANAGEMENT

This portion of the policy focuses on investment risk management to ensure that a system is in place to monitor risk levels. While many risks are prevalent, the main risk for the Retirement System is that the assets may not support the liabilities over the long term. The following steps are taken to mitigate this and other risks within the portfolio:

1) PEBA provides an actuarial valuation each year to measure the Retirement System's funding ratio and other pertinent financial information.
~~2)~~ At least every five years, a formal, external asset/liability study will be prepared for the Commission, and it may include an evaluation of the Commission's investment strategy as set forth in S.C. Code Ann. §9-16-320(G). The purpose of this study is to ensure that the current portfolio design is structured to meet the system's liabilities. Annually in the interim, the CIO and Consultant will submit an opinion to the Commission that addresses the continued prudence of the current asset mix in achieving the actuarial assumed rate of return over the long term.
2)

Formatted: Space After: 0 pt, Line spacing: single

Formatted: Space After: 0 pt, Line spacing: single

Formatted: Indent: Left: 0.5"

3) Governance policies, internal policies and investment policies are in place to clearly outline the desired outcomes, roles and responsibilities, investment guidelines, benchmarking and portfolio evaluation, and reporting requirements.

Formatted: Condensed by 0.15 pt

Formatted: Indent: Left: 0.5"

At the Portfolio level, staff will:

1) Maintain the Portfolio's asset allocation within the limits established by this policy.
2) Maintain manager level and strategy level diversification, and adhere to the limits within this policy or as contracted with the manager.
3) Adhere to policies and procedures established by the Commission.
4) Maintain adequate liquidity for benefit payments and capital calls.
5) Track and manage the counterparty risk with respect to ~~internally managed allocations, including~~ the Overlay program.

H. INVESTMENT MANAGER GUIDELINES

Full discretion in implementing the investment strategy, within the parameters of all applicable guidelines described herein, is granted to the Commission's investment managers regarding the selection of securities and the timing of transactions within the portion of the Portfolio allocated to each manager. Unless otherwise approved and stated in the contract with the manager, the following guidelines apply to the asset classes below where assets are invested in separately managed accounts.

For all accounts, the Commission expects the purchase and sale of its securities to be conducted in a manner designed to receive the best combination of price and execution. The Commission may evaluate policies that provide for the most efficient and effective trading process.

Compliance with all applicable guidelines must be monitored by the investment managers on a regular basis (~~monthly~~ quarterly or more frequently when market conditions warrant) and based on then current market values. Securities that, at purchase, would move the account out of compliance with these guidelines, based on the investment manager's most recent valuation, may not be purchased.

In the event that an account moves out of compliance with the applicable guidelines, through market conditions or other changes outside the control of the manager, the manager must bring the account composition back into compliance within 45 days or make a written request to the Commission for a compliance waiver.

1) Passive Equity Manager Guidelines

Passive strategies are expected to have characteristics substantially similar to an underlying benchmark. For example, a large cap passive equity account must have substantially similar capitalization and sector exposure to the corresponding, large cap benchmark.

2) Domestic Active Equity Manager Guidelines

The guidelines listed below will apply to all actively~~-~~-managed domestic equity accounts, unless otherwise specifically noted or waived by written consent:

a. Domestic equity purchases are limited to common stocks, preferred stocks, mutual funds, Exchange Traded Funds (“ETFs”), American Depository Receipts (“ADRs”) and convertibles that are publicly traded. Exceptions must be approved by the Commission in advance;
b. Managers should disclose whenever a single holding accounts for more than 6% of the allowable equity portion of the account managed for the Retirement System at market value;
c. The Retirement System’s domestic equity accounts are expected to be fully invested. Managers are encouraged to utilize appropriate ETFs relative to the account benchmark. In no case shall manager’s cash exceed 5% after equitizing available cash in an appropriate ETF unless the manager notifies Staff and the Consultant within ~~48 hours~~two business days and furnishes an explanation for the deviation from this guideline;
d. No single holding in the Retirement System’s Portfolio shall account for more than 5% of the outstanding common stock of any one corporation;
e. The purchase of ADRs, stocks or convertibles in foreign companies which are publicly traded securities may be held by each domestic stock manager in proportions which each manager deems appropriate, up to 10% of the account at market value (foreign companies are defined as incorporated outside of the U.S. and performing a predominant portion of their business outside of the U.S.). Securities purchased that are part of the manager’s domestic benchmark are excluded from the 10% limit;
f. Convertible bonds, convertible preferred stocks, warrants, rights, and ETFs may be purchased as equity substitutes as long as they meet the equity guidelines listed above.

3) International Active Equity Manager Guidelines

The guidelines listed below will apply to all international active equity accounts, unless otherwise specifically noted:

a. Short-term reserves may be held in U.S. dollar denominated, local currency securities, or investment vehicles available through the custodial bank;
b. Managers may purchase or sell currency on a spot basis to accommodate securities settlements;
c. Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen account volatility or to facilitate the settlement of securities transactions;
d. International equity accounts are expected to be fully invested. Managers are encouraged to utilize suitable ETFs relative to the account benchmark. In no case shall manager’s cash exceed 5% after equitizing available cash in appropriate ETFs unless the manager notifies Staff and the Consultant within ~~48 hours~~two business days and furnishes an explanation for the deviation from this guideline;

e. Equity securities should be issued by corporations chartered outside the U.S., although the manager has latitude to hold other securities provided that such investment is consistent with attainment of the account's investment objectives and does not exceed 10% of the account's market value. American Depository Receipts ("ADRs") do not apply toward this 10% limitation;
f. The number of issues held and their geographic or industry distribution will be at the discretion of the investment manager, provided that equity holdings in any one company (including ADRs, common stock and convertible securities) do not exceed 6% of the market value of the account. Additionally, bonds of the companies in question should be included in the exposure calculation if held in the manager's account;
g. Managers with developed country international equity mandates may invest up to 10% of their account in the non-developed markets; and
h. Managers with an emerging markets equity mandate may invest up to 10% of their account(s) in markets not deemed to be emerging markets, subject to the guidelines listed above.

4) Core Fixed Income Manager Guidelines

The guidelines listed below will apply to all core fixed income accounts, unless otherwise specifically noted.

a. In all Fixed Income strategies, "Investment Grade" is defined as: a rating of BBB- or higher from S&P, BBB- or higher from Fitch, or Baa3 or higher from Moody's.
b. Core fixed income investments may include U.S. Government and Federal Agency obligations, TIPS, corporate bonds, debentures, commercial paper, certificates of deposit, Yankee bonds, mortgage-backed securities, bank loans, and other instruments deemed prudent by the investment manager;
c. No more than 6% of the market value of the domestic fixed income assets may be invested in the debt securities of any one issuer, except that no limitations on issues and issuers will apply to obligations of U.S. Government and Federal Agencies;
d. Issues below Investment Grade at the time of purchase may be purchased up to a maximum of 20% of the account;
e. Notwithstanding the above, each manager is allowed to hold a maximum of 5% of the account in bank loans;
f. Managers may invest up to 20% of their account in non-U.S. fixed income securities regardless of currency and may hold foreign currency;
g. The overall average quality of each core U.S. fixed income account must be rated Investment Grade or higher by Moody's, Fitch or Standard & Poor's. Split-rated securities will be measured using the lower ratings. Non-rated issues~~, excluding bank loans,~~ may be purchased up to a maximum of 10% of the Account~~. These quality restrictions will not apply to a manager that is engaged by the Commission to manage dedicated high yield fixed income accounts~~;
h. The diversification of securities by maturity, quality, sector, coupon and geography is the responsibility of the manager. Active bond management is encouraged as deemed appropriate by the investment manager;

i. The average duration (interest rate sensitivity) of an actively managed account must not differ from the passive benchmark's duration by more than plus or minus 50% of the benchmark duration;
j. Derivative contracts as delineated in the Allowable Investments section above may be utilized for duration management and managing yield curve exposures. Additionally, credit default swaps may be utilized to increase or decrease credit exposure; and
k. Any mortgage-backed securities ("MBS") will be subject to the constraints listed below:
   i. Agency fixed and floating rate pass-throughs, U.S. Treasury securities, and cash equivalents can be held without limitation;
   ii. Inverse floating rate, interest only ("I/O"), principal only ("P/O"), and accrual CMOs in aggregate will be limited to 15% of the mortgage securities account, with no more than 5% of the account invested in accrual CMOs. In the event that other types of mortgage-related securities with risk characteristics similar to those in this category are developed, the manager will inform the CIO of those securities and they will be included in this 15% limitation;
   iii. All other types of mortgage-related securities not explicitly cited herein will be limited to an aggregate 20% of the account; and
   iv. The Commission recognizes that the calculation of the duration of a mortgage-backed security involves assumptions as to the expected future prepayment rate for the security at the time of calculation and that prepayment rates cannot be precisely determined in advance. However, the manager is expected to calculate expected duration prior to the initial purchase of a security and on a routine basis in monitoring the account's compliance with these guidelines.

5) Short Duration & Cash:

a. Internally managed Short Duration and Cash accounts ~~goals and~~ guidelines:
   ~~i. To outperform the 0-3 Yr Merrill Lynch Treasury Index~~
   ~~ii.~~i. Securities issued in a currency other than the USD may not be purchased for these accounts~~this strategy100% US dollar securities~~;
   ~~iii.~~ Short Duration and Cash investments may ~~I~~include~~s~~ but are~~is~~ not limited to, Treasuries, Agencies, Commercial Paper, Banker's acceptances, ~~-~~Repurchase agreements, Corporate debt securities, ~~o's~~ and other money market and fixed income securities eligible under South Carolina law;
   ~~iv.~~ The ~~M~~maximum final maturity ~~-:~~of any security purchased for these ~~portfolios~~accounts must be 3 years or less from purchase date; except in the case of new issues with a final maturity limit measured as one that matures within three years of the month that it was purchased;
   ii. ~~Maximum Issuer Weighting : 5%~~ No more than 5% of the ~~portfolio~~ se accounts may be invested in the securities of any one issuer (at the time of purchase), with the exception of U.S. government and agency securities;
   iii. No more than 10% of the ~~portfolio~~se accounts may be invested in securities of any one issue;
   iv. The allocation to corporate debt securities may not exceed the greater of (a) 40% of the ~~portfolio~~accounts or (b) the representative weight in the benchmark index plus five percent at the time of purchase, except in the event that the portfolio

Formatted: Indent: Hanging: 0.25"

has had to sell securities to raise cash. In this event, the ~~portfolio~~accounts can be repositioned over a period not to exceed 30 days;

v. Sector weightings are limited to +/-50% of the benchmark weighting.

~~vi. Maximum Ownership of an Issue: 10%~~

vi. Securities must be rated as investment grade or better by a nationally recognized statistical rating organization ~~Minimum Average Credit Quality : Investment Grade or better~~ at the time of purchase. In the event that an issue has a "split rating", the lower of the ratings will govern suitability.

vii. In the event that a security is downgraded or otherwise ceases to meet the above rating criteria, it may continue to be held in the ~~portfolio~~se accounts, however additional purchases are not permitted until such time that it meets the aforementioned rating guidelines.

b. External managers may be used for short duration mandates with the following ~~goals and~~ guidelines:

~~i. To outperform the 0-3 Yr Merrill Lynch Treasury Index~~

~~ii.~~i. ~~100% US dollar securities~~Securities issued in a currency other than the USD may not be purchased for ~~this strategy~~these mandates;

ii. ~~To focus on short-term, low volatility~~Short duration fixed income securities may include but are not limited to:~~high yield debt with a final maturity of 3 years or less~~

a) U.S. Government Securities

b) Sovereign and Supranational denominated in U.S. Dollars

c) Money market instruments

d) Repurchase agreements (fully collateralized with approved eligible investments)

e) Municipal securities (taxable and non-taxable)

f) MBS (Agency and non-Agency issued and collateralized) including but not limited to:

a. Residential mortgage-backed securities (RMBS)

b. Commercial mortgage-backed securities (CMBS)

c. Mortgage pass-throughs

d. Collateralized mortgage obligations (CMOs)

e. Adjustable rate mortgages (ARMs)

f. Mortgage dollar rolls

g) Asset backed securities (ABS) including but not limited to:

a. Credit cards

b. Autos

c. Student Loans

d. Home Equity

~~iii.~~h) Corporate debt securities

~~iv. 100% US dollar securities~~

~~v.~~iii. High yield securities (Includes calls, tenders, take-outs, bank ~~loans~~debt, unregistered 144As)

~~.~~ Opportunistic investments in investment grade securities, convertibles, Treasuries

Formatted

Formatted

Formatted

Formatted

Formatted

Formatted: Indent: Left: 1.5", No bullets or numbering

Formatted: Normal, Indent: Left: 1.25" iv.

~~.~~ Use of ~~No exposure to~~ Credit Default Swaps is prohibited in these ~~portfolios~~mandates.

v.

~~vii. Opportunistic investments in investment grade securities, convertibles, Treasuries~~

vi. The maximum final maturity of any security purchased for these ~~portfolios~~mandates must be 3 years or less from purchase date; except in the case of new issues with a final maturity limit measured as one that matures within three years of the month that it was purchased;

~~vii. Maximum final maturity : 3 years~~

vii. No more than 5% of the ~~portfolio~~ mandates may be invested in the securities of any one issuer (at the time of purchase), with the exception of U.S. government and agency securities;

~~viii. Maximum Issuer Weighting : 5%~~

~~ix. Maximum Industry Weighting : 15%~~ No more than 15% of the ~~portfolio~~mandate can be invested in any one industry.

~~x.~~viii. ~~Maximum GICs Sector Weighting : 25%~~ No more than 25% of the ~~portfolio~~mandate can be invested in any one GICs sector.

~~xi.~~ix. The ~~M~~minimum ~~A~~average ~~C~~credit ~~Q~~quality ~~:~~ of the ~~portfolio~~ mandate ~~is~~should be B+. ~~(~~No securities rated below CCC~~s~~ at time of purchase~~)~~ may be included.

6) High Yield Fixed Income Manager Guidelines

The ~~Core Fixed Income~~ guidelines ~~described above~~listed below will apply to high yield fixed income managers, unless otherwise specifically noted:

a. Managers may invest up to 40% of their accounts in non-U.S. fixed income securities unless limited by their contract;

b. Managers are allowed to hold a maximum of ~~10~~25% of the account in bank loans;

c. No more than 6% of the market value of the account may be invested in the debt securities of any one issuer;

~~c.~~d. The average credit quality for the account should be no lower than B-, average quality should be calculated using the lower of split ratings. Split-rated securities will be measured using the lower ratings. Non-rated issues may be purchased up to a maximum of 10% of the Account.; ~~and~~

e. Managers may not purchase issues with a quality rating lower than C, and should a holding be downgraded to a rating lower than C, the manager must notify the Consultant and Investment Staff within ~~48 hours~~two business days, unless otherwise specifically noted in IMA, and furnish Staff with an explanation for the deviation from this guideline within three business days;

Formatted: Font: +Body (Calibri), 11 pt

Formatted: Normal, Indent: Left: 1.25"

Formatted: Font: (Default) +Body (Calibri), 11 pt

Formatted: Normal, Indent: Left: 1.25"

Formatted: Font: (Default) +Body (Calibri)

Formatted: Left, No bullets or numbering

Formatted: Font: (Default) +Body (Calibri), 11 pt

Formatted: Normal, Indent: Left: 1.25"

Formatted: Font: 11 pt

Formatted: Condensed by 0.1 pt

Formatted: Condensed by 0.1 pt

Formatted: Normal, Numbered + Level: 1 + Numbering Style: a, b, c, … + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Indent at: 0.5"

Formatted: List Paragraph

f. The average duration (interest rate sensitivity) of an actively managed account must not differ from the passive benchmark's duration by more than plus or minus 50% of the benchmark duration; ~~.~~

Formatted: Condensed by 0.1 pt

g. Managers may invest up to 10% of their accounts in municipal~~s~~ securities (taxable and nontaxable); and

h. Derivative contracts as delineated in the Allowable Investments section above may be utilized for duration management and managing currency and yield curve exposures. Additionally, credit default swaps may be utilized to increase or decrease credit exposure.

Formatted: Condensed by 0.1 pt

7) Bank Loans

The guidelines listed below will apply to all bank loan accounts, unless otherwise specifically noted.

a. Managers may invest up to 40% of their accounts in non-U.S. fixed income securities unless limited by their investment management agreement;
b. Managers are allowed to hold a maximum of 25% in high yield securities;
c. No more than 6% of the market value of the account may be invested in the debt securities of any one issuer;
d. The average credit quality for the account should be no lower than B-, average quality should be calculated using the lower of split ratings. Split-rated securities will be measured using the lower ratings. The allocation to non-rated issues may be the higher of the index allocation or 10% of the Account;
e. Managers may not purchase issues with a quality rating lower than C, and should a holding be downgraded to a rating lower than C, the manager must notify the Consultant and Investment Staff within two business days, unless otherwise specifically noted in investment management agreement, and furnish Staff with an explanation for the deviation from this guideline within three business days;
f. Derivative contracts as delineated in the Allowable Investments section above may be utilized for duration management and managing currency and yield curve exposures. Additionally, credit default swaps may be utilized to increase or decrease credit exposure.

Formatted: Normal, Left, No bullets or numbering

Formatted: Font: Courier, 10 pt, Bold

8) Structured Credit

The guidelines listed below will apply to all structured credit accounts, unless otherwise specifically noted.

a. Managers may invest up to 40% of their accounts in non-U.S. fixed income securities unless limited by their investment management agreement;
b. Managers may invest no more than 5% in a single traunche, no more than 20% to a single manager, and no more than 20% in a single security;
c. The average credit quality for the account should be no lower than BBB-, average quality should be calculated using the higher of the split ratings. Split-rated

securities will be measured using the lower ratings. The allocation to non-rated issues may 10% of the Account;

d. Derivative contracts as delineated in the Allowable Investments section above may be utilized for duration management and managing currency and yield curve exposures. Additionally, credit default swaps may be utilized to increase or decrease credit exposure.

~~7)~~9) Global Fixed Income Manager Guidelines

The guidelines listed below will apply to all Global Fixed Income ("GFI") accounts, unless otherwise specifically noted:

a. Excluding government sponsored enterprises~~;~~, no single non-government debt security shall constitute more than 6% of a global bond account, as determined at the time of purchase. Securities issued by AAA-~~R~~rated ~~S~~supranational ~~O~~organizations (such as the World Bank) will be considered to be government equivalents;

b. No industry, as defined by the Barclays Capital Global Aggregate Index, except securities issued or guaranteed by ~~the~~ a government, its agencies or instrumentalities, or government sponsored entities of the United States, Canada, United Kingdom, Germany, France, Australia, New Zealand and Japan, or securities issued or guaranteed by AAA-rated supranational entities will comprise more than 25% of the market value of the account, as determined at the time of purchase;

c. Short-term reserves may be held in U.S. dollar denominated or local currency securities or investment vehicles available through the Retirement System's Custodian;

d. Managers may invest in securities issued in any currency and may hold foreign currency. Managers may hedge all or a portion of their currency exposure through the use of foreign currency exchange contracts, including non-delivery forward foreign exchange contracts and cross hedges. Managers may invest in currency-linked non-leveraged structured notes;

e. Common stock may be held if it is acquired as a result of financial restructuring, bankruptcy, or from an exchange or conversion of a permissible security held in the account;

~~a.~~ The ~~overall~~ average overall quality of each GFI account must be A- or higher, as rated by S&P, Moody's or Fitch. Non-rated issues or bank loans may be purchased, provided that in the judgment of the manager, they are of a quality sufficient to maintain the average overall account quality of A- or higher. Issues below Investment Grade at the time of purchase may be purchased up to a maximum of 20% of the account. Emerging market debt may not comprise more than 40% of the account. Combined, these last two allocations should not exceed 50% of the account;

f.

g. Managers may continue to hold securities that are downgraded in quality subsequent to their purchase if, in the opinion of the manager, it would be advantageous to do so, so long as the overall portfolio remains in compliance with the guidelines set forth.

~~g.~~h. The average effective duration (interest rate sensitivity) of a GFI account must not differ from the passive benchmark by more than three years; and,

Formatted: Normal, Left, No bullets or numbering

Formatted: Font: Courier, 10 pt, Bold

Formatted: Normal, Indent: Left: 1", Hanging: 0.25", Numbered + Level: 3 + Numbering Style: a, b, c, … + Start at: 1 + Alignment: Left + Aligned at: 1.06" + Indent at: 1.19"

Formatted: Font: (Default) +Body (Calibri), 11 pt, Condensed by 0.1 pt

Formatted: Normal, Indent: Left: 1", Hanging: 0.25", Numbered + Level: 3 + Numbering Style: a, b, c, … + Start at: 1 + Alignment: Left + Aligned at: 1.06" + Indent at: 1.19"

Formatted: Font: (Default) +Body (Calibri), 11 pt, Condensed by 0.1 pt

Formatted: Condensed by 0.1 pt

~~h.~~i. Notwithstanding the above, each manager is allowed to hold a maximum of 5% of the account in bank loans.

~~8)~~10) Emerging Market Debt Manager Guidelines

The guidelines listed below will apply to all Emerging Market Debt ("EMD") accounts, unless otherwise specifically noted:

a. No single debt security shall constitute more than 6% of the EMD account, as determined at the time of purchase;
b. Each manager may hold a maximum of 5% of the account in bank loans;
c. No industry, as defined by the J.P. Morgan Emerging Markets Bond Global Index ("JPM EMBI Global") Index, will comprise more than 25% of the market value of the account, as determined at the time of purchase;
d. Short-term reserves may be held in U.S. dollar denominated or local currency securities or investment vehicles available through the Retirement System's Custodian;
e. Managers may invest in securities issued in any currency and may hold foreign currency. Managers may hedge all or a portion of their currency exposure through the use of foreign currency exchange contracts, including non-delivery forward foreign exchange contracts and cross hedges. Managers may invest in currency-linked non-leveraged structured notes;
f. Decisions as to the number of issues held and their geographic distribution will be the responsibility of the manager;
g. Common stock may only be held if it is acquired as a result of financial restructuring, bankruptcy, or from an exchange or conversion of a permissible security held in the account; and,
h. From time to time, the Commission, upon the recommendation of the Consultant and CIO, may combine the allocations to U.S. High Yield and Emerging Market Debt in a manager allocation that includes Global Bonds. Such a manager would be expected to manage in the spirit of the guidelines set forth above.

~~9)~~11) Global Asset Allocation

The guidelines listed below will apply to all Global Asset Allocation (GAA) portfolios.

a. GAA portfolios will be benchmarked against a hybrid 50/50 portfolio (50% MSCI World Index, 50% Citigroup World Government Bond Index). Commission staff may elect to analyze the performance of these managers using an additional customized benchmark for internal purposes.
b. For the purpose of clarity, a GAA manager may use hedged strategies as a part of its implementation. When this is the case, if either (a) the majority of portfolio is invested in hedge funds or (b) the strategy's cost structure resembles that of a hedge fund, then the strategy will be considered a hedge fund. This distinction has relevance for the purpose of determining ~~cataloging~~ the Plan's entire hedge fund exposure.

c. The portfolios of GAA managers may be invested in liquid securities and instruments, including but not limited to equities, fixed income securities, bank loans, commodities, futures, swaps, forwards, options, and currencies.
d. These strategies may employ leverage.
~~e. The RSIC's investment in these strategies will not exceed 25% (at the time of investment) of the total assets under management, unless the Commission specifically suspends this restriction.~~

Commented [AA2]: Does not conform with the ranges within the asset allocation earlier in the document.

~~10)~~12) Alternative Asset Manager Guidelines

The guidelines listed below will apply to all alternative investments, which include Hedge Funds, Private Equity, Private Debt, and Real Estate:

a. The Commission will only invest in alternative assets when there is sufficient transparency and policy compliance reporting. Accordingly, the Commission expects that extensive due diligence will be performed in evaluating and fully understanding all aspects of an alternative investment opportunity;
b. It is anticipated that the alternative investments will typically be structured in the form of a partnership, limited liability company, commingled vehicle, or separately managed account. The investment policies and business terms of these managers will be dictated by the documents and/or agreements governing these relationships;
c. The Commission's initial commitment to a fund will not exceed 25% of the committed capital of that fund, unless the Commission specifically waives or suspends this restriction (i) in order to take advantage of a new firm or product that has not yet built an asset base or (ii) in the case of a fund that has been created specifically for RSIC (e.g., a single LP fund).
d. All partnership investments must have a mechanism ~~with~~and a timetable for exit. Other Alternative Investments should have reasonable and well-defined policies for withdrawal of funds from their strategies;
e. Unless otherwise approved by the Commission, no more than 15% of the long-term targeted alternative asset investment allocation may be invested with a single manager, general partner, or single fund, with the exception of a Fund-of-funds and a Strategic Partnership;
f. Preference will be given to those funds where the general partner equivalent is contributing at least 1% of the capital of the total fund; and
g. A reference check on a general partner or equivalent must be performed prior to investing in a fund. This reference check can be completed and reported by the Consultant, or other service provider, subject to review and approval by the Investment Staff.

~~11)~~13) Strategic Partnerships

The Commission may elect to establish Strategic Partnerships with certain asset managers who are believed to possess specific expertise, knowledge and capabilities for a limited or broad range of investment strategies. The Strategic Partnerships are utilized to implement investment ideas with the specific investment manager of the related Strategic Partnership.

Each Strategic Partnership will be reviewed by the Commission periodically. The Commission may delegate certain day-to-day responsibilities to the CIO and/or Deputy CIO with respect to the Strategic Partnerships.

The investment approval and evaluation process within the Strategic Partnership is similar to that followed by direct investments by the Commission as described under the Manager Search process. Once an investment idea is sourced, the investment evaluation or due diligence process begins. The investment must pass each of the following due diligence steps before an investment can be made:

a. Evaluate the investment in regard to the Portfolio's overall asset allocation.
b. Meet certain return and risk characteristics, and size qualifications as deemed to be appropriate by the CIO or Deputy CIO in relation to the Strategic Partnership and Portfolio.
c. The investment is evaluated by an assigned team comprised of Investment Staff appointed by the CIO.
d. ~~Once approved by the IIC, t~~The investment must ~~pass final review~~ be approved by both IIC and the Strategic Partnership Investment Committee before becoming an eligible investment.
e. After ~~being approved by the Strategic Partnership Investment Committee~~these approvals, the investment must be reviewed for legal sufficiency for the Portfolio.

14) Funds of One

A Fund of One is an investment structure in which there is one ~~sole~~main investor in a specific vehicle or fund. The Commission may structure certain investments as a Fund of One where ~~they~~it believes that such a structure will have preferable fee arrangements, customized exposure advantages, and/or other beneficial considerations. The CIO is responsible for the day-to-day responsibilities with respect to Funds of One, including providing affirmative or negative consent for underlying investments, as required.

~~12)~~15) Guidelines for Use of Other Pooled/Commingled Funds[3]

Commingled investment vehicles provide, under some circumstances, lower costs and better diversification than can be obtained with a separately managed account pursuing the same investment objectives. However, commingled investment funds cannot customize investment policies and guidelines to the specific needs of individual clients. Recognizing these trade-offs, the Commission will accept the policies of such funds in order to achieve the lower costs and diversification benefits of commingled vehicles, and exempt commingled investment vehicles from the requirements and guidelines of this policy if:

[3] For purposes of this section, reference to commingled "fund" or "vehicle" will include a limited partnership, limited liability company, or any commingled structure, as applicable.

a. The investment practices of the commingled vehicle are consistent with the spirit of this policy and are not significantly different in letter; and
b. The benefits of using a commingled vehicle rather than a separate account are material.

In some cases, the Commission may structure a portfolio as a separate account that allows for the advantages of commingled vehicles, but the Retirement System will be the only investor. With the introduction of international assets, in particular, commingled vehicles save the Commission from having to provide additional accounting for currency and foreign custody issues as the manager will have responsibility for these functions.

In instances where an investment mandate is structured through a commingled vehicle, the investment policies of that vehicle will be the legal governing policies of the investment of assets allocated to that vehicle.

G. MONITORING AND REPORTING

1) Periodic Reports to Commission

The Commission will monitor performance through periodic reports that will allow assessment of broad policy decisions, strategic allocation decisions, and implementation decisions. Performance, with the exception of private market investments, will be calculated using time-weighted rate of return methodology. Performance for private market investments will be calculated on a dollar-weighted basis and multiple on invested capital.

a. At least quarterly, the CIO will submit a report to the Commission addressing the Retirement System's success in accomplishing the investment objectives based on the benchmarks described by policy at the total fund level and each asset class level. ~~This report may also include a brief of due diligence meetings held throughout the quarter for existing managers. Certain managers may be excluded when the disclosure of material information could obstruct the manager's performance or jeopardize the ability of the Commission or Investment Staff to implement a portion of the AIP or achieve investment objectives.~~
b. The CIO will also provide the Commission with a brief commentary which summarizes thoughts on the market and key strategic decisions made in the quarter, along with justification for those decisions.
~~c. Periodically, an external consultant will be engaged to report to the Commission regarding the Retirement System's success in minimizing implementation cost without negatively impacting performance.~~

2) Manager ~~Reporting~~ Monitoring Guidelines

In accordance with RSIC Due Diligence Guidelines, adopted on November 8, 2012 and as subsequently amended, Staff will perform a regular in-depth review of each manager. In addition to this requirement, Staff will review manager-provided reporting and communication. Staff will also interact, as needed, with managers outside of these regular

Commented [BM3]: I have engaged AbelNoser for this analysis on a trial basis, but there is a cost associated with this item. I don't believe this is something that we should include here.

Formatted: Font: (Default) +Body (Calibri), 11 pt

Formatted: Indent: Left: 0.75"

Formatted: Font: (Default) +Body (Calibri), 11 pt

Formatted: Font: (Default) +Body (Calibri), 11 pt in-depth reviews. On an annual basis, managers will be required to complete a Compliance questionnaire that will be reviewed by Staff.

The Commission may rely on reports generated by the Consultant or other third party services to evaluate investment managers to fulfill the requirements of this guideline. ~~Managers must provide a quarterly summary (written or verbally) of the following, which will be used to evaluate investment performance:~~

~~a. Guideline compliance;~~
~~b. Discussion of any changes to the investment process, as applicable;~~
~~c. Investment strategy used over the past year and underlying rationale;~~
~~d. Evaluation of strategy's successes/disappointments;~~
~~Provide total portfolio returns for the last quarter, year-to-date, last year, three-years, five-years, and since inception versus designated benchmarks, as applicable;~~
~~e. Discuss performance relative to benchmarks including attribution; and~~
~~e. Provide account characteristics relative to benchmark. (note: In the case of a manager basing returns on an IRR and not a benchmark, there will not be any characteristic comparisons.)~~

~~The Commission may rely on reports generated by the Consultant or other third party services to evaluate investment managers on all of the above requirements for each quarter.~~

3) Proxy Voting and Reporting

Separate account managers are authorized and directed to vote all proxies, or to direct the Physical Custodian to vote proxies in keeping with the manager's duties under federal and state law to act in the best interests of its clients, and generally to exercise any of the powers of an owner with respect to the assets under the manager's control, subject at all times to the absolute right of the Commission to direct the voting of proxies upon written notification to the manager.

Those separate account managers which vote proxies must provide a written annual summary to the RSIC summarizing proxy votes cast during the previous year. The report shall also (i) detail any changes that have occurred in the manager's proxy voting practices and (ii) note any instances where proxies were not voted in accordance with the best interests of the Retirement System's plan participants.

~~3)~~4) Portfolio Disclosure

The Commission strives to be as transparent as possible regarding all decisions, both business and investment. However, since public disclosure of the details of transition plans or specific investments may jeopardize the Commission's ability to effectively implement the plan or achieve investment objectives, pursuant to S.C. Code Ann. §9-16-80 and §9-16-320, these items will be considered confidential and will remain within the confines of Executive Session during Commission meetings. Information relating to the Commission's actions will be made available to the public as soon as the plan is implemented but not before such time as public disclosure of the information will no longer jeopardize the RSIC's ability to achieve its investment objectives or implement the investment plan.

Formatted: Font: (Default) +Body (Calibri), 11 pt

Formatted: Indent: Left: 0.7"

Formatted: Justified, Indent: Left: 0.7", Widow/Orphan control

Formatted: Justified, Widow/Orphan control

Formatted: List Paragraph, Justified, Numbered + Level: 1 + Numbering Style: 1, 2, 3, … + Start at: 1 + Alignment: Left + Aligned at: 0.5" + Indent at: 0.75"

Formatted: Font: (Default) +Body (Calibri), 11 pt

Formatted: Indent: Left: 0.7"

Formatted: Font: (Default) +Body (Calibri), 11 pt

Formatted: Font: (Default) +Body (Calibri), 11 pt

IV. PORTFOLIO IMPLEMENTATION AND BENCHMARK

The Portfolio has traditionally invested via a combination of passive and active strategies, with most passive strategies implemented internally through the Overlay account and active strategies outsourced to external managers. In conjunction with the strategic initiatives outlined herein and the increasing sophistication of the Portfolio, the Commission, and the Investment Staff, an additional option will be internal implementation by the Investment Staff. The internal capacity currently includes management of ETFs, Cash, Short Duration, and Core Fixed Income, as well as distribution management (that is, the management and disposition of in-kind distributions received from external investment managers or third parties, including, but not limited to, proceeds of settlement of securities class actions or other litigation). In addition, the CIO has discretion to implement passive and enhanced equity exposures with synthetic securities, derivatives, equity baskets, and exchange traded funds. Given the fees associated with external/active management implementation, the Commission recognizes that internally managed solutions (initially focused principally on enhanced index strategies and tactical allocation shifts) will become increasingly important. The Commission authorizes the CIO, ~~COO~~ED and Staff to (i) develop such internal solutions and (ii) work with the Commission to obtain the resources necessary to effectively and prudently implement these internal solutions, subject to the requirements of applicable law, this policy and the Commission's Governance Policies.

The legacy Overlay program is expected to continue to function as a tactical means by which the CIO and Investment Staff are able to manage incremental shifts in broad market exposures and manage risk in an efficient manner using both physical and synthetic securities, including, but not limited to, exchange-traded-funds/notes, equity or fixed income baskets, options, futures, swaps and forward currency contracts. These instruments will be increasingly deployed as Staff transitions portions of the Portfolio to internally managed strategies.

1) Performance Objectives and Benchmarks

   Staff will apply industry-standard benchmarking processes in the management of each asset and sub-asset class when applicable. Benchmarks are utilized for comparative, analytical, and performance measurement purposes. They are applied on both absolute and relative bases. The CFA Institute established the following criteria for appropriate benchmarks:

   a. Specified in advance
   b. Appropriate
   c. Measurable
   d. Unambiguous
   e. Reflective of investment options
   f. Owned
   g. Investable

   The above criteria are used by Staff and the Consultant in recommending the benchmarks designated in the following table for policy purposes. ~~-~~The Policy benchmark will be the weighted Policy Allocation to each Index. The current Policy benchmark ~~became, which is effective as of July 1, 2013.~~will change to reflect changes in asset allocation as they are approved.

Formatted: Indent: Left: 0.25", Space After: 0 pt, Line spacing: single

Asset Class	Indices for Policy Benchmark
Global Equity:	
Global Public Equity	MSCI All-Country World Index[4] (net of dividends)
Private Equity	80% Russell 3000/20% MSCI EAFE[4] + 300 basis points on a 3-month lag (net of dividends)
Real Assets:	
Commodities	Dow Jones-UBS Commodity Index
Broad Real Estate	NCREIF Open-end Diversified Core (ODCE) Index + 75 basis points
Opportunistic:	
GTAA/Risk Parity	50% MSCI World / 50% S&P/Citi WGBI
Hedge Funds (Low Beta)	HFRI Fund Weighted Composite Index
Diversified Credit:	
Mixed Credit (HY, Loans, Structured)	1/3 Barclays U.S. High Yield - 2% Issuer Cap, 1/3 S&P/LSTA Leveraged Loan and 1/3 Barclays MBS Indices
Emerging Market Debt	50% JP Morgan EMBI Global Diversified (US Dollar) / 50% JP Morgan GBIEM Global Diversified (Local)
Private Debt	S&P/LSTA Leveraged Loan + 150 basis points on a 3-month lag
Conservative Fixed Income:	
Core US Fixed Income	Barclays US Aggregate Bond Index
Global Fixed Income (Hedged)	Barclays Global Aggregate Bond Index (Hedged)

~~[4] Measured on a total return net of dividends basis.~~

Short Duration	Barclays 1-3 Year Government/Credit Index
Cash Equivalents	Merrill Lynch 3-Month T-Bill

Formatted: Space After: 0 pt, Line spacing: single

V. PLACEMENT AGENT POLICY

I. Purpose. It is not the intent of this Policy to proscribe the utilization of Placement Agents (as defined in this Policy) by external investment managers. Rather, in order to provide the fiduciaries and stakeholders of the Retirement System trust funds with additional information regarding the RSIC's investment decision making process, the RSIC has determined that it is in the best interest of the RSIC to require disclosure of the use of any Placement Agent.

II. Definitions. For purposes of this Policy, the following capitalized terms will have the defined meaning set forth below:

(A) "Placement Agent" means any person or entity hired, engaged, or retained by, or acting on behalf of, an external investment manager or an affiliate thereof, or on behalf of another placement agent:

(1) as a finder, solicitor, marketer, consultant, broker, or other intermediary to raise money or obtain an investment from, or to obtain access to, the RSIC, directly or indirectly, including, without limitation, through an investment vehicle; and

(2) receiving any benefit in connection therewith, including compensation in the form of a flat fee, a contingent fee or on any other basis.

(B) "Placement Agent Disclosure Letter" means that letter which will be requested from prospective external investment management firms in accordance with the terms of this Policy.

(C) "Policy" means this Placement Agent Policy.

(D) "Retirement System" means the South Carolina Retirement System, South Carolina Police Officers Retirement System, Retirement System for Judges and Solicitors of the State of South Carolina, Retirement System for Members of the General Assembly of the State of South Carolina, and the National Guard Retirement System.

(E) "RSIC" means the South Carolina Retirement System Investment Commission.

III. Procedure

(A) RSIC staff will inform prospective external investment management firms ("Investment Managers") as to the RSIC's Placement Agency Policy and its attendant disclosure requirements as soon as practicable after RSIC staff begins the due diligence review of any potential investment. The RSIC staff member leading the due diligence review for the investment is responsible for sending written notice (paper, fax or email) to the Investment Manager requesting a Placement Agent Disclosure Letter. If a copy of this Policy has not already been provided to the Investment Manager, then this Policy will be made available to the Investment Manager prior to or at the time notice is given to the Investment Manager.

(B) The Placement Agent Disclosure Letter must be included in the RSIC investment Due Diligence Report packet~~.~~.

(C) Investments will not be voted on by the Commission, Internal Investment Committee, or Co-Investment Committee prior to receipt of the completed Placement Agent Disclosure Letter.

(D) Notwithstanding section III(C), in the event that the CIO determines exigent circumstances exist such that it is in the RSIC's best interest for the potential investment to be voted on prior to the receipt of the completed Placement Agent Disclosure Letter, the RSIC investment memo must contain an explanation of the circumstances and indicate the CIO's approval of proceeding with the vote, subject to the provisions of Sections VI and VII of this Policy.

(E) The following entities must provide disclosure regarding use of Placement Agents as outlined below:
- (1) Investment Managers that have a direct contractual investment management relationship with the RSIC or with an investment vehicle in which the RSIC is invested.
- (2) Investment Managers that have an indirect contractual investment management relationship with the RSIC through an investment vehicle that invests in funds or other pooled investment vehicles or other assets.

IV. Placement Agent Disclosure Letter. The Investment Manager will provide disclosure in the form of a letter addressing all requirements specified below:

(A) **If the services of a Placement Agent were not used:**
- (1) Representation that the Investment Manager did not use the services of a Placement Agent (as defined in this Policy) to assist the Investment Manager in obtaining investments by the RSIC, or otherwise doing business with the RSIC.
- (2) Representation that no benefit has been paid, given, or promised to any of the RSIC's investment consultants or any person reasonably believed to be a Commission member, officer, director or employee of the RSIC for the purpose, or with the effect of obtaining (i) an introduction to the RSIC or any Commission member, officer or employee of the RSIC, or other assistance in obtaining business from the RSIC, or (ii) a favorable recommendation with respect to the investment.
- (3) Representation that all information contained in the Placement Agent Disclosure Letter is true, correct and complete in all material respects.

(B) **If the services of a Placement Agent were used:**
- (1) Representation that a benefit has been paid, given, or promised to assist the Investment Manager in obtaining investments by the RSIC, or otherwise doing business with the RSIC. The Investment Manager must also disclose (i) the complete legal name of the Placement Agent, (ii) a description of the transaction and the reason for the engagement of the Placement Agent; and (iii) the amount of the benefit and the nature or purpose of the benefit.
- (2) Representation that no benefit has been paid, given, or promised to any of the RSIC's investment consultants or any person reasonably believed to be a Commission member, officer, director, or employee of the RSIC for the purpose, or with the effect of obtaining (i) an introduction to the RSIC or any trustee or Commission member, officer or employee of the RSIC, or other assistance in obtaining business from the RSIC, or (ii) a favorable recommendation with respect to the investment.
- (3) Certification that any Placement Agent used in obtaining investment(s) by the RSIC is properly registered in accordance with current securities laws and all applicable state and federal regulations.
- (4) Representation that all information contained in the Placement Agent Disclosure Letter is true, correct and complete in all material respects.

V. Open Records Law. RSIC may be required to disclose information in the Placement Agent Disclosure Letter under the South Carolina Freedom of Information Act.

VI. Investments with Separate Account Investment Management Agreements ("IMAs"). In the event RSIC does not receive the Placement Agent Disclosure Letter prior to closing, the RSIC has the option, in its sole discretion, to not execute the IMA. If, after closing, the RSIC determines that the Placement Agent Disclosure Letter contains a material inaccuracy or omission, the RSIC will, to the fullest extent possible, seek the option, in its sole discretion and without liability to the Investment Manager or any third party, to terminate the IMA and to pursue all remedies that may otherwise be available to the RSIC without incurring any penalty under any agreement to which it is a party.

VII. Investments in commingled investment structures (LPAs, LLCs, Trusts, etc.). If the RSIC does not receive the Placement Agent Disclosure Letter within the time period specified above, it has the option, in its sole discretion, not to close the investment. The RSIC will endeavor to have provisions incorporated into the transaction documents for commingled investment structures which would permit the RSIC to take those actions described in the next sentence. If, after closing, the RSIC determines that the Placement Agent Disclosure Letter contains a material inaccuracy or omission, the RSIC will seek to obtain the option, in its sole discretion and without liability to the commingled investment structure, the General Partner or equivalent management entity, any other investor in the structure or third party, to cease making further capital contributions and/or direct payments to the investment and to pursue all remedies that may otherwise be available to the RSIC without being deemed to be a defaulting Limited Partner under the transaction documents and without incurring any other penalty under any agreement to which it is a party.

VIII. Third Party Service Providers. The party responsible for submitting the Placement Agent Disclosure Letter may omit from the Placement Agent Disclosure Letter fees and expenses paid to its legal counsel, accountants and other third party service providers in connection with the RSIC's investment, unless such entities or affiliates thereof performed a function or received a benefit of the type meeting this Policy's definition of Placement Agent. The RSIC expects the party responsible for submitting the Placement Agent Disclosure Letter to diligently undertake this analysis of third party service providers.

IX. Review. The Chief Investment Officer and the RSIC's audit and compliance staff will review Placement Agent Disclosure Letters and will determine whether each disclosure is sufficient. Any questions regarding the sufficiency of the disclosure will be referred to the RSIC legal department.

X. Staff Contact. RSIC staff will notify the CIO and the RSIC's audit and compliance staff in writing if a party acting in what appears to be the role of a Placement Agent contacts the RSIC regarding an investment.

XI. Other

(A) Obligation to Update**.** It is the Investment Manager's obligation to promptly inform RSIC staff of any material changes to a prior-filed Placement Agent Disclosure Letter, and to submit an updated Placement Agent Disclosure Letter where warranted prior to the RSIC's closing on an investment.

XII. Review and History

(A) The Commission will review this policy at least every three years to ensure that it remains relevant and appropriate, or when there has been an amendment to state law relevant to any section of this policy, or a Commission approved change in the responsibilities, duties, or operations of the Commission or its committees generally, or as otherwise deemed appropriate by the Commission.

(B) No provision of this policy shall apply to the extent that it is in conflict with any provision of the Code of Laws of South Carolina, 1976, as amended. In the event of such conflict, the applicable Code provision shall apply in all respects.

(C) This policy was adopted on September 20, 2012.

Formatted: Space After: 0 pt, Line spacing: single

VI. SECURITIES LITIGATION POLICY

(A) Purpose of Policy; Objectives - The purpose of this document is to set forth the Commission's policies with respect to securities litigation. The principle objective of the Commission with regard to securities litigation is to prudently and effectively manage securities claims as assets of the Retirement System. Prudent and effective management of securities claims consists of the following functions:

(1) Timely initial identification of potential claims.
(2) The ability to conduct an in-depth assessment of certain claims, where warranted.
(3) Making determinations regarding the most appropriate method of managing claims. Most, if not all, of these claims will be prosecuted by the class action bar whether or not the Commission takes an active role. Consequently, the Commission will focus on identifying those cases where active involvement could add value, either in the specific case or on a long term and portfolio-wide basis. Decisions as to what claims should be actively managed and how to manage them requires a balancing of the costs and benefits involved.
(4) Insuring that all claims are timely filed and recoveries are collected.

Each of these functions is discussed in greater detail below.

(B) Initial Identification of Potential Claims – The identification of potential claims is a time-sensitive process, due to federal law's requirement that any party interested in seeking appointment as lead plaintiff in a federal securities class action must file a notice of its intention to seek appointment within 60 days of the filing of the initial complaint. Potential claims may be identified internally by the Commission's staff, investment consultants and analysts, or externally (by a third party "claims monitoring" service or by the class action bar). Experience has shown that the class action bar typically identifies and files actions on almost all claims first. Therefore, the most expedient way to identify claims is usually to monitor class action filings, determine whether the Retirement System is a member of the class and make other preliminary assessments regarding the potential claim.

The following summarizes the process presently used by the Commission to identify claims in which it has an interest:

(1) The Commission's legal counsel reviews cases listed on various websites when notices of filings are received. Cases may also be identified by other information services or called to the Commission's attention by outside counsel.
(2) The "class periods" (that is, the start and end dates proposed in cases, which may (i) have an effect on the Retirement System's potential losses and (ii) be modified during the course of the litigation) in new cases are compared to Retirement System's trading history to identify those in which Retirement System is a class member.
(3) The Commission's legal counsel obtains a Retirement System trading history and a price chart for cases in which Retirement System may have a claim. Where available, other information describing the case may also be obtained.
(4) The current size of Retirement System's holding in the company is determined.

(5) Upon request by the Commission's legal counsel, a rough damage estimate will be prepared by staff or otherwise, based on the price drop after the end of the class period and the number of shares purchased and sold during the class period.

(6) If the potential claim has a measurable, material impact on our investment return, the Commission's legal counsel obtains a copy of the complaint and seeks to gather other publicly available information.

(7) Advice from the CEO/CIO, the portfolio manager(s), the Commission's investment consultant, and other analysts is obtained when the Retirement System has a substantial claim.

(C) Evaluating Claims - Unless adequate internal resources are available, claims identified for further evaluation are generally sent to experienced securities/litigation counsel engaged specifically to evaluate claims and advise the Commission on options for prudently managing the claims in question. A list of qualified securities/litigation counsel will be maintained by the Commission, in consultation with the Attorney General, for evaluating and/or prosecuting claims. The same general process and standards are used to evaluate each claim, as well as to determine and implement an appropriate claim management strategy, regardless of how the case is identified or referred to the Commission. That process generally includes the following steps and considerations:

(1) Claim evaluation counsel performs due diligence on claims.

(2) In instances where the Retirement System has a large current position in a company, claims are evaluated as to whether they are nuisance suits. If such a claim is likely to cause unnecessary serious harm to the company or the industry (and the value of Retirement System's holding), consideration may be given to whether the Commission could add value to the Retirement System's holding by supporting the company in seeking dismissal of the frivolous or immaterial lawsuit.

(3) Claim evaluation counsel examines reasonable options for protecting the Retirement System's interests in a way that is likely to produce the greatest risk/reward benefits. Options may include (i) passive participation in class action, (ii) filing to become lead plaintiff, (iii) attempting to get a larger claimant to become lead plaintiff, (iv) monitoring the case from the sidelines, (v) writing a letter to the court and/or lead outside counsel to bring up issues being ignored, (vi) filing a motion to support or oppose a particular lead plaintiff or lead outside counsel candidate, (vii) filing a notice of appearance and more actively monitoring the case, (viii) attempting to negotiate an agreement with prospective lead outside counsel that will require them to keep the Commission informed of case developments, providing the Commission with access to discovery upon request and allow the Commission to participate in settlement negotiations or be consulted on a settlement, (ix) waiting until settlement and reviewing the settlement carefully with the option to object to a poor settlement or excessive fees[5], and (x) opting out of the class to file a separate action (e.g., where the Retirement System has a substantial Section 18 claim for direct reliance on misrepresentations in a document filed with the SEC that is unlikely to be pursued by the class).

[5] The Commission will develop guidelines addressing arrangements which constitute "excessive fees."

(4) Where other institutional investors appear to have similar large claims, consideration may be given to contacting them about a joint effort.

(5) Pursuit of a shareholder derivative action might be considered where the company is not pursuing claims it has against third parties if the shareholders would benefit from realizing on those claims.

(6) Non-litigation alternatives to addressing the underlying cause of the company's problem are also considered (e.g., contacting appropriate law enforcement agencies about potential prosecution of wrongdoers, filing a shareholder resolution or negotiating for remedial corporate governance changes, such as addition of independent directors).

(7) Resource and other potential impacts may be considered in recommending a course of action. Factors which will be considered include impact of the proposed litigation on the Commission's staffing and resources, as well as other issues (e.g., strength of potential witnesses, likelihood that an investment will be sold, contents of Commission's files, support of the portfolio manager for legal action, and potential compromise of Commission's trading strategy if material, non-public information were to be acquired through involvement in discovery).

(8) The Retirement System's portfolio impact of active claims management on long-term value may be taken into consideration in addition to the factors involved in a single case (e.g., the deterrence of future fraud from pursuit of claims against corporate bad actors or culpable auditors that are unlikely to be pursued without active case management by a knowledgeable lead plaintiff, introduction of competition between law firms to lower the size of legal fee awards taken out of recoveries, raising the standard for acceptable recoveries in class actions, objecting to unreasonable fees, and fostering changes in corporate culture that are likely to benefit shareholders).

(9) Potential conflicts with other members of the class should also be taken into consideration in determining how to best manage the Retirement System's interests in a particular lawsuit (e.g., where the Retirement System has an overriding interest in getting the case dismissed because of its large continuing position and negative view of the suit's merits, the Commission may not want to seek appointment as lead plaintiff).

(10) Claim evaluation counsel generally provides a written analysis and a recommendation to the Commission's Legal Division on what the most cost-effective options appear to be for managing the claim.

(11) Recommendations may be discussed with portfolio managers, outside counsel and other Commission and Retirement System staff as appropriate prior to a final decision on management of the claim by the Commission's Legal Division.

(D) Serving as Lead Plaintiff - Where the claim evaluation process results in a decision to seek appointment as lead plaintiff, specific principles for adding value through the Commission's participation in the litigation may be identified (e.g., reduction of class legal fees and costs, pursuit of recoveries from culpable officers, directors, auditors, or other third parties, maximization of the recovery, and correction of underlying corporate governance problems). The Commission believes the most important decisions a lead plaintiff makes are usually those on selection/compensation of lead outside counsel and evaluation of potential settlement offers. In that regard, the Commission will always seek to structure lead outside counsel's compensation in a way that aligns interests of the class and its lawyers. The Commission believes that deterrence goals can be achieved in settlements through pursuit of claims against individuals and third parties that are bad actors. The following outlines the Commission's approach to serving as lead plaintiff.

(1) When the Retirement System acts as sole lead plaintiff, the Commission will select lead outside counsel based on proposals submitted by and interviews of one or more potential lead outside counsel firms. [Note: A sample form of request for proposals may be found in Appendix A hereto]. A selection/review panel will evaluate candidates for lead outside counsel. Panel members will include the Chairman of the Commission, a member of the Commission's Legal Division, and a designee of the South Carolina Attorney General. That panel will also receive the advice of the Commission's general investment consultant and other analysts. A majority of the panel will constitute a quorum. The panel will make a recommendation regarding proposed lead outside counsel for a particular case to the Commission for a final decision.

(2) The lead outside counsel selection should be done so as to establish for the court and other class members that lead outside counsel was selected on merit.

(3) If the Commission does not prefer to serve as the sole lead plaintiff, other institutions may be invited to participate as joint lead plaintiffs. When a group is formed to function as lead plaintiff, similar procedures should be agreed upon for selection of lead outside counsel and supervision of the litigation. In the absence of other arrangements, the Commission generally prefers to have each participant designate a representative to serve on a lead plaintiff committee. The committee could be authorized to function much the same way that creditors' and equity holders' committees in bankruptcies do, with the committee electing its own officers, being updated regularly by lead outside counsel and convening as needed to review events or make decisions. Lead outside counsel could effectively serve as staff to the lead plaintiffs' committee.

(4) Only qualified lead outside counsel candidates should be invited to submit proposals.

(5) Consideration may be given to expanding competition between competent counsel within the class action bar, in order to encourage long-term reduction of fees.

(6) While other innovative fee proposals may be solicited, the Commission will generally favor an arrangement that starts at a very low level (e.g., 5-10 percent) for a minimal recovery (this mitigates against counsel pursuing a frivolous case) and increases in brackets up to a maximum level for the highest recovery dollars. (The Commission does not ordinarily favor a descending fee schedule out of concern that it might operate to impose an artificial cap on lead outside counsel's incentives at the point where the fee percentage starts to decline. The last dollars are usually the hardest to obtain and lead outside counsel should be duly motivated to get them.) To prevent a windfall for lead outside counsel, the Commission also believes the fee schedule should contain a component that lowers the fee for early recoveries and gradually increases as the case proceeds. The fee schedule could be viewed as a grid, with the size of the recovery on one axis and the stage of litigation on the other. If costs and expenses are anticipated to be a major factor, consideration could be given to determining fees after costs are deducted from the recovery so that lead outside counsel is encouraged to keep costs under control.

(7) The Commission will not advance fees or expenses for the class.

(8) Lead outside counsel is generally expected to indemnify the Retirement System and Commission for any sanctions.

(9) Lead outside counsel must provide information on its malpractice insurance coverage.

(10) A written proposal is usually requested from lead outside counsel candidates. The proposal should include an evaluation of the case, the suggested fee arrangement, and a litigation plan. Unless the Commission is otherwise familiar with the outside counsel, the proposal should also explain the firm's experience in similar cases and the expertise of the lawyers that would work on the case.

(11) The Commission believes it should retain the right to consent to an increase in a fee agreement at a later stage in the litigation if circumstances change such that the fee schedule is a disadvantage to the class.

(12) Separate fee levels for claims against different defendants may be considered, if it is likely that efforts to obtain recoveries would vary from one to another.

(13) Written proposals are generally reviewed by the selection/review panel (or the lead plaintiff committee) and the top candidates may be asked to provide an oral presentation (either in person or by conference call).

(14) If time does not permit selection of lead outside counsel to be completed prior to the deadline for lead plaintiff applications, the Commission's Legal Division may file the lead plaintiff motion.

(15) A case management agreement covering reporting, approval and other procedures should be established with lead outside counsel to ensure that Commission/Retirement System will be able to perform effectively its responsibilities as lead plaintiff.

(16) Use of local or co-counsel by lead outside counsel will require approval from the Commission, where it will not unreasonably increase class fees or costs.

(E) Filing of Claims -Upon the settlement or other resolution of class action or other securities litigation, the Commission's custodial bank shall timely file all documents and take other steps necessary to insure that (a) the interests of the Commission and Retirement System are protected and (b) all monies due the Retirement System from such litigation are collected. The Commission's Legal Division will receive information from the custodial bank regarding the filing of claims and receipt of settlement proceeds and other recoveries, and periodically report to the Commission.

II. ADMINISTRATION OF POLICY

(A) Processing Claims – The Commission's Legal Division is responsible for managing and coordinating the processing of all securities claims of the Commission/Retirement System either directly to court or through lead outside counsel.

(B) Reporting - The Legal Division will submit quarterly reports to the Commission regarding the status of (i) securities claims in which the Commission may be eligible to obtain a recovery and (ii) recoveries collected.

(C) Conclusion - As the Commission gains more experience with securities class action litigation, this process is expected to evolve. Changes in law and developments in court interpretations of the Private Securities Litigation Reform Act of 1996 and other laws may also impact procedures used by the Commission. Questions about the Commission's securities class action procedures may be addressed to the Commission's legal counsel.

III. Policy Review & History

(A) The Commission will review this policy at least every three years to ensure that it remains relevant and appropriate, or when there is an amendment to state law relevant to any section of this policy, or when there is a Commission approved change in the responsibilities, duties, or operations of the Commission generally.

(B) This policy was adopted November 17, 2011.

IV. Appendices

(A) Sample Request for Proposals

Formatted: Space Before: 0 pt

Appendix A – Sample Request for Proposals

The Commission may solicit proposals for lead outside counsel, though it will be more customary for the applicants to solicit the Commission. When the Commission does solicit proposals, the Sample Request below will often suffice.

Legal Division
South Carolina Retirement System Investment Commission
1201 Main Street, Suite 1510
Columbia, South Carolina 29201
Sample Request for Proposals
Date:______________

Formatted: Space Before: 0 pt

To: Candidate Law Firms

Re: _______________ Class Action

_____________ is soliciting proposals from selected qualified law firms to represent it in seeking appointment as lead plaintiff and in representing the class as lead counsel (subject to approval by the court) in the above securities class action litigation. _________ invites your firm to submit a proposal.

A list of the known pending class action lawsuits against the company is attached. We have also attached our trading history in the stock during the proposed class periods. Additional information can be provided upon request. I assume you will have to review the filed complaints and additional information about the company in order to evaluate the case and provide us with your legal analysis and proposal.

Proposals must be no more than ten pages in length and should be submitted to the attention of _________________ by _________. Please provide at least six copies of all materials. The following items should be addressed, either in the written proposal or subsequent presentation:

- Whether you believe this case is one in which we should seek appointment as lead plaintiff;
- Your firm's experience in handling similar litigation;
- Identification of staffing arrangements you would make in order to accommodate workload;
- The results of any investigations you have performed for the case;
- Analyses of the causes of action which could be pursued by the class or us;
- Separate consideration of claims against the various defendants and potential defendants, including the company's accountants, underwriters, directors and officers;
- A damage analysis for claims of both us and the class, including likely recovery projections;
- Anticipated defenses to each claim and motions that might be brought by the parties;
- A general litigation plan outline for the case, including discovery plans and a target trial date;
- Consideration of the potential need for subclasses;
- What the appropriate class period should be;
- Evaluation of how the case might be handled to enhance deterrence of future fraud;
- Identification of firm personnel who would work on the case, including the roles each person would play and their normal hourly rates;
- Plans for use of co-counsel or other law firms and our relationship with any other plaintiffs;

Formatted: Tab stops: Not at 1.14"

- Arrangements for retaining and compensating experts and third parties on behalf of the class;
- Suggested reporting arrangements for supervision of lead outside counsel by us;
- Identification of your firm's malpractice coverage;
- Confirmation that your firm would cover litigation costs, any bonds required by the court and potential Rule 11 liability; and
- Proposed fee arrangements.

We invite alternative and thoughtful fee proposals for consideration. We seek an arrangement that aligns the interests of lead outside counsel with those of class members. We invite suggestions for a progressive fee structure which rewards lead outside counsel for success in pursuing damage recovery and other litigation goals, encourages prompt resolution of the matter, discourages unnecessary discovery and motion practice, and eliminates outcomes where counsel could obtain a cheap settlement that provides unreasonable fees. While fees will be a consideration in the selection process, our decision on lead outside counsel will also include evaluation of other factors, including those listed above.

Please note that we will not be responsible for fees or costs prior to recovery. As you know, representation of the class as lead outside counsel is subject to court approval.
If you submit a proposal, you may be contacted regarding a presentation to us by the primary firm personnel who would be responsible for the case. The presentation may be done in person or by teleconference.

[SS1]

II. GENERAL OPERATING POLICIES

A. ROLES AND RESPONSIBILITIES

The following section outlines the roles and responsibility for each party associated with administration and management of the assets for the Retirement System.

1) PEBA administers a comprehensive program of retirement benefits, performing fiduciary duties as stewards of the contributions and disbursements for the Retirement System. PEBA has the responsibility of producing GAAP basis financial statements for the Retirement Systems and maintains a general ledger to support that process. The financial statements that are produced by PEBA contain information regarding the investments made by the Investment Commission and as such contain the official accounting records for the Retirement Systems. The financial statements are presented in accordance with Generally Accepted Accounting Principles (GAAP) and comply with the Governmental Accounting Standards Board (GASB) standards. The financial statements are audited annually by an independent audit firm hired by the State Auditor's Office.

2) The State Treasurer is the custodian of the funds of the Retirement System.

~~2)~~3) The South Carolina General Assembly has the authority to control budget and staffing for the RSIC (S.C. Code Ann. §2-7-60) and to set the actuarial assumed rate of return for the RSIC Portfolio (S.C Code Ann. §9-16-335)

~~3)~~4) In 2005, t~~T~~he Commission was established by South Carolina law to invest and manage all assets of the Retirement System. The RSIC is under the management of the seven member Commission. The Commission's fiduciary responsibilities are addressed in its Governance Policies, include authorizing investment decisions and overseeing the management of the business affairs of the RSIC, in accordance with applicable laws, ensuring legal and ethical integrity, adhering to fiduciary standards, and maintaining accountability.

~~4)~~ The Commission employs an Executive Director (ED) and a Chief Investment Officer ("CIO"). The Commission's Governance Policies set forth the roles and responsibilities of the ED and CIO. ~~to implement the investment directives of the Commission, and an Chief Operating Officer~~Executive Director ~~("COO~~ED~~") to implement the administrative and operational directives of the Commission. The CIO and COO~~ED ~~are responsible for oversight of the RSIC staff ("Staff") and for managing day-to-day operations of the RSIC.Pursuant to Commission policies, the CIO and COO~~ED ~~may delegate responsibilities to appropriate Staff, provided that such delegation is consistent with the policies approved by the Commission.~~ The CIO and Investment Staff manages the investment functions to implement the Commission's investment decisions, including asset allocation, risk management, investment manager oversight, and other related investment functions, such as establishing and modifying investment guidelines in keeping with the Commission's approval, the SIOP, and applicable law. ~~The COO~~ED ~~and non-investment staff manages the administrative, legal, compliance, and operational functions of the RSIC.~~

	State of South Carolina **Request for Proposal**	Solicitation Number: Date Issued: Procurement Officer: Phone: E-Mail Address:	**5400008130** 07/25/2014 ANTHONY R CROMARTIE (803) 737-1129 acromartie@mmo.sc.gov

DESCRIPTION: **Compensation Consultant**

USING GOVERNMENTAL UNIT: **Retirement Investment Commission**

The Term "Offer" Means Your "Bid" or "Proposal". Unless submitted on-line, your offer must be submitted in a sealed package. Solicitation Number & Opening Date must appear on package exterior. See "Submitting Your Offer" provision.

SUBMIT YOUR OFFER ON-LINE AT THE FOLLOWING URL: http://www.procurement.sc.gov

SUBMIT YOUR SEALED OFFER TO EITHER OF THE FOLLOWING ADDRESSES:

MAILING ADDRESS:	PHYSICAL ADDRESS:
Materials Management Office **PO Box 101103** **Columbia SC 29211**	**Material Management Office** **Capital Center** **1201 Main Street, Suite 600** **Columbia SC 29201**

SUBMIT OFFER BY (Opening Date/Time): **08/26/2014 2:30 P.M.** (See "Deadline For Submission Of Offer" provision)

QUESTIONS MUST BE RECEIVED BY: **08/05/2014 4:00 P.M.** (See "Questions From Offerors" provision)

NUMBER OF COPIES TO BE SUBMITTED: **One (1) original in hard copy, one (1) electronic copy (See MAGNETIC MEDIA -- REQUIRED FORMAT – Section II B), eight (8) copies in hard copy clearly marked "COPY", one (1) redacted copy in hard copy and one (1) redacted electronic copy (see SUBMITTING CONFIDENTIAL INFORMATION – Sec. II A and SUBMITTING REDACTED OFFERS – Sect. IV)**

CONFERENCE TYPE: **Not Applicable** DATE & TIME: (As appropriate, see "Conferences - Pre-Bid/Proposal" & "Site Visit" provisions)	LOCATION: **Not Applicable**

AWARD & AMENDMENTS	Award will be posted on **09/12/2014**. The award, this solicitation, any amendments, and any related notices will be posted at the following web address: http://www.procurement.sc.gov

Unless submitted on-line, you must submit a signed copy of this form with Your Offer. By submitting a bid or proposal, You agree to be bound by the terms of the Solicitation. You agree to hold Your Offer open for a minimum of thirty (30) calendar days after the Opening Date. (See "Signing Your Offer" and "Electronic Signature" provisions.)

NAME OF OFFEROR (full legal name of business submitting the offer)		Any award issued will be issued to, and the contract will be formed with, the entity identified as the Offeror. The entity named as the offeror must be a single and distinct legal entity. Do not use the name of a branch office or a division of a larger entity if the branch or division is not a separate legal entity, i.e., a separate corporation, partnership, sole proprietorship, etc.
AUTHORIZED SIGNATURE (Person must be authorized to submit binding offer to contract on behalf of Offeror.)		TAXPAYER IDENTIFICATION NO. (See "Taxpayer Identification Number" provision)
TITLE (business title of person signing above)		STATE VENDOR NO. (Register to Obtain S.C. Vendor No. at www.procurement.sc.gov)
PRINTED NAME (printed name of person signing above)	DATE SIGNED	STATE OF INCORPORATION (If you are a corporation, identify the state of incorporation.)

OFFEROR'S TYPE OF ENTITY: (Check one) (See "Signing Your Offer" provision.)

___ Sole Proprietorship ___ Partnership ___ Other______________________________

___ Corporate entity (not tax-exempt) ___ Corporation (tax-exempt) ___ Government entity (federal, state, or local)

PAGE TWO

(Return Page Two with Your Offer)

HOME OFFICE ADDRESS (Address for offeror's home office / principal place of business)	NOTICE ADDRESS (Address to which all procurement and contract related notices should be sent.) (See "Notice" clause) ____ Area Code - Number - Extension Facsimile ____ E-mail Address
PAYMENT ADDRESS (Address to which payments will be sent.) (See "Payment" clause) ____Payment Address same as Home Office Address ____Payment Address same as Notice Address **(check only one)**	ORDER ADDRESS (Address to which purchase orders will be sent) (See "Purchase Orders and "Contract Documents" clauses) ____Order Address same as Home Office Address ____Order Address same as Notice Address **(check only one)**

ACKNOWLEDGMENT OF AMENDMENTS

Offerors acknowledges receipt of amendments by indicating amendment number and its date of issue. (See "Amendments to Solicitation" Provision)

Amendment No.	Amendment Issue Date	Amendment No.	Amendment Issue Date	Amendment No.	Amendment Issue Date	Amendment No.	Amendment Issue Date

DISCOUNT FOR PROMPT PAYMENT (See "Discount for Prompt Payment" clause)	10 Calendar Days (%)	20 Calendar Days (%)	30 Calendar Days (%)	_____Calendar Days (%)

PREFERENCES - A NOTICE TO VENDORS (SEP. 2009):

Per Section 11-35-1524 (E) (2) of the South Carolina Code of Laws, preferences do NOT apply to this procurement.

PREFERENCES - ADDRESS AND PHONE OF IN-STATE OFFICE:

Not Applicable

End of PAGE TWO

Table of Contents

I. SCOPE OF SOLICITATION

ACQUIRE SERVICES (JAN 2006)

The purpose of this solicitation is to acquire services complying with the enclosed description and/or specifications and conditions. [01-1010-1]

Specifically, The State Procurement Office on behalf of the RSIC is seeking a compensation consultant for a three year term. The scope of work will vary in year 1 and year 2 and 3 **(See SECTION III. SCOPE OF WORK/SPECIFICATIONS)**.

Deliverables must be completed by **November 14, 2014.**

MAXIMUM CONTRACT PERIOD - ESTIMATED (Jan 2006)

Start date: **09/23/2014** End date: **09/22/2017**. Dates provided are estimates only. Any resulting contract will begin on the date specified in the notice of award. See clause entitled "Term of Contract - Effective Date/Initial Contract Period". [01-1040-1]

II. INSTRUCTIONS TO OFFERORS - A. GENERAL INSTRUCTIONS

DEFINITIONS (JAN 2006)

EXCEPT AS OTHERWISE PROVIDED HEREIN, THE FOLLOWING DEFINITIONS ARE APPLICABLE TO ALL PARTS OF THE SOLICITATION.

AMENDMENT means a document issued to supplement the original solicitation document.
BOARD means the South Carolina Budget & Control Board.
BUYER means the Procurement Officer.
CHANGE ORDER means any written alteration in specifications, delivery point, rate of delivery, period of performance, price, quantity, or other provisions of any contract accomplished by mutual agreement of the parties to the contract.
CONTRACT See clause entitled Contract Documents & Order of Precedence.
CONTRACT MODIFICATION means a written order signed by the Procurement Officer, directing the contractor to make changes which the changes clause of the contract authorizes the Procurement Officer to order without the consent of the contractor.
CONTRACTOR means the Offeror receiving an award as a result of this solicitation.
COVER PAGE means the top page of the original solicitation on which the solicitation is identified by number. Offerors are cautioned that Amendments may modify information provided on the Cover Page.
OFFER means the bid or proposal submitted in response this solicitation. The terms Bid and Proposal are used interchangeably with the term Offer.
OFFEROR means the single legal entity submitting the offer. The term Bidder is used interchangeably with the term Offeror. See bidding provisions entitled Signing Your Offer and Bid/Proposal As Offer To Contract.
ORDERING ENTITY Using Governmental Unit that has submitted a Purchase Order.
PAGE TWO means the second page of the original solicitation, which is labeled Page Two.
PROCUREMENT OFFICER means the person, or his successor, identified as such on the Cover Page.
YOU and YOUR means Offeror.
SOLICITATION means this document, including all its parts, attachments, and any Amendments.
STATE means the Using Governmental Unit(s) identified on the Cover Page.
SUBCONTRACTOR means any person having a contract to perform work or render service to Contractor as a part of the Contractor's agreement arising from this solicitation.
USING GOVERNMENTAL UNIT means the unit(s) of government identified as such on the Cover Page. If the Cover Page names a Statewide Term Contract as the Using Governmental Unit, the Solicitation seeks to establish a Term Contract [11-35-310(35)] open for use by all South Carolina Public Procurement Units [11-35-4610(5)].
WORK means all labor, materials, equipment and services provided or to be provided by the Contractor to fulfill the Contractor's obligations under the Contract.
[02-2A003-1]

AMENDMENTS TO SOLICITATION (JAN 2004)

(a) The Solicitation may be amended at any time prior to opening. All actual and prospective Offerors should monitor the following web site for the issuance of Amendments: www.procurement.sc.gov (b) Offerors shall acknowledge receipt of any amendment to this solicitation (1) by signing and returning the amendment, (2) by identifying the amendment number and date in the space provided for this purpose on Page Two, (3) by letter, or (4) by submitting a bid that indicates in some way that the bidder received the amendment. (c) If this solicitation is amended, then all terms and conditions which are not modified remain unchanged. [02-2A005-1]

AWARD NOTIFICATION (NOV 2007)

Notice regarding any award or cancellation of award will be posted at the location specified on the Cover Page. If the contract resulting from this Solicitation has a total or potential value of fifty thousand dollars or more, such notice will be sent to all Offerors responding to the Solicitation. Should the contract resulting from this Solicitation have a total or potential value of one hundred thousand dollars or more, such notice will be sent to all Offerors responding to the Solicitation and any award will not be effective until the eleventh day after such notice is given. [02-2A010-1]

BID/PROPOSAL AS OFFER TO CONTRACT (JAN 2004)

By submitting Your Bid or Proposal, You are offering to enter into a contract with the Using Governmental Unit(s).

Without further action by either party, a binding contract shall result upon final award. Any award issued will be issued to, and the contract will be formed with, the entity identified as the Offeror on the Cover Page. An Offer may be submitted by only one legal entity; "joint bids" are not allowed. [02-2A015-1]

BID ACCEPTANCE PERIOD (JAN 2004)

In order to withdraw Your Offer after the minimum period specified on the Cover Page, You must notify the Procurement Officer in writing. [02-2A020-1]

BID IN ENGLISH and DOLLARS (JAN 2004)

Offers submitted in response to this solicitation shall be in the English language and in US dollars, unless otherwise permitted by the Solicitation. [02-2A025-1]

BOARD AS PROCUREMENT AGENT (JAN 2004)

(a) Authorized Agent. All authority regarding the conduct of this procurement is vested solely with the responsible Procurement Officer. Unless specifically delegated in writing, the Procurement Officer is the only government official authorized to bind the government with regard to this procurement. (b) Purchasing Liability. The Procurement Officer is an employee of the Board acting on behalf of the Using Governmental Unit(s) pursuant to the Consolidated Procurement Code. Any contracts awarded as a result of this procurement are between the Contractor and the Using Governmental Units(s). The Board is not a party to such contracts, unless and to the extent that the board is a using governmental unit, and bears no liability for any party's losses arising out of or relating in any way to the contract. [02-2A030-1]

CERTIFICATE OF INDEPENDENT PRICE DETERMINATION (MAY 2008)

GIVING FALSE, MISLEADING, OR INCOMPLETE INFORMATION ON THIS CERTIFICATION MAY RENDER YOU SUBJECT TO PROSECUTION UNDER SECTION 16-9-10 OF THE SOUTH CAROLINA CODE OF LAWS AND OTHER APPLICABLE LAWS.

(a) By submitting an offer, the offeror certifies that-

(1) The prices in this offer have been arrived at independently, without, for the purpose of restricting competition, any consultation, communication, or agreement with any other offeror or competitor relating to-
(i) Those prices;
(ii) The intention to submit an offer; or
(iii) The methods or factors used to calculate the prices offered.

(2) The prices in this offer have not been and will not be knowingly disclosed by the offeror, directly or indirectly, to any other offeror or competitor before bid opening (in the case of a sealed bid solicitation) or contract award (in the case of a negotiated solicitation) unless otherwise required by law; and

(3) No attempt has been made or will be made by the offeror to induce any other concern to submit or not to submit an offer for the purpose of restricting competition.

(b) Each signature on the offer is considered to be a certification by the signatory that the signatory-

(1) Is the person in the offeror's organization responsible for determining the prices being offered in this bid or proposal, and that the signatory has not participated and will not participate in any action contrary to paragraphs (a)(1) through (a)(3) of this certification; or

(2)(i) Has been authorized, in writing, to act as agent for the offeror's principals in certifying that those principals have not participated, and will not participate in any action contrary to paragraphs (a)(1) through (a)(3) of this certification [As used in this subdivision (b)(2)(i), the term "principals" means the person(s) in the offeror's organization responsible for determining the prices offered in this bid or proposal];

(ii) As an authorized agent, does certify that the principals referenced in subdivision (b)(2)(i) of this certification have not participated, and will not participate, in any action contrary to paragraphs (a)(1) through (a)(3) of this certification; and

(iii) As an agent, has not personally participated, and will not participate, in any action contrary to paragraphs (a)(1) through (a)(3) of this certification.

(c) If the offeror deletes or modifies paragraph (a)(2) of this certification, the offeror must furnish with its offer a signed statement setting forth in detail the circumstances of the disclosure. [02-2A032-1]

CERTIFICATION REGARDING DEBARMENT AND OTHER RESPONSIBILITY MATTERS (JAN 2004)

(a) (1) By submitting an Offer, Offeror certifies, to the best of its knowledge and belief, that-

(i) Offeror and/or any of its Principals-

(A) Are not presently debarred, suspended, proposed for debarment, or declared ineligible for the award of contracts by any state or federal agency;
(B) Have not, within a three-year period preceding this offer, been convicted of or had a civil judgment rendered against them for: commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public (Federal, state, or local) contract or subcontract; violation of Federal or state antitrust statutes relating to the submission of offers; or commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, tax evasion, or receiving stolen property; and
(C) Are not presently indicted for, or otherwise criminally or civilly charged by a governmental entity with, commission of any of the offenses enumerated in paragraph (a)(1)(i)(B) of this provision.

(ii) Offeror has not, within a three-year period preceding this offer, had one or more contracts terminated for default by any public (Federal, state, or local) entity.

(2) "Principals," for the purposes of this certification, means officers; directors; owners; partners; and, persons having primary management or supervisory responsibilities within a business entity (e.g., general manager; plant manager; head of a subsidiary, division, or business segment, and similar positions).

(b) Offeror shall provide immediate written notice to the Procurement Officer if, at any time prior to contract award, Offeror learns that its certification was erroneous when submitted or has become erroneous by reason of changed circumstances.

(c) If Offeror is unable to certify the representations stated in paragraphs (a)(1), Offer must submit a written explanation regarding its inability to make the certification. The certification will be considered in connection with a review of the Offeror's responsibility. Failure of the Offeror to furnish additional information as requested by the Procurement Officer may render the Offeror nonresponsible.

(d) Nothing contained in the foregoing shall be construed to require establishment of a system of records in order to render, in good faith, the certification required by paragraph (a) of this provision. The knowledge and information of an Offeror is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings.

(e) The certification in paragraph (a) of this provision is a material representation of fact upon which reliance was placed when making award. If it is later determined that the Offeror knowingly or in bad faith rendered an erroneous certification, in addition to other remedies available to the State, the Procurement Officer may terminate the contract resulting from this solicitation for default.
[02-2A035-1]

CODE OF LAWS AVAILABLE (JAN 2006)

The South Carolina Code of Laws, including the Consolidated Procurement Code, is available at:
http://www.scstatehouse.gov/code/statmast.php

The South Carolina Regulations are available at:
http://www.scstatehouse.gov/coderegs/statmast.php

[02-2A040-2]

COMPLETION OF FORMS/CORRECTION OF ERRORS (JAN 2006)

All prices and notations should be printed in ink or typewritten. Errors should be crossed out, corrections entered and initialed by the person signing the bid. Do not modify the solicitation document itself (including bid schedule). (Applicable only to offers submitted on paper.) [02-2A045-1]

DISCLOSURE OF CONFLICTS OF INTEREST OR UNFAIR COMPETITIVE ADVANTAGE (MAY 2011)

You warrant and represent that your offer identifies and explains any unfair competitive advantage you may have in competing for the proposed contract and any actual or potential conflicts of interest that may arise from your participation in this competition or your receipt of an award. The two underlying principles are (a) preventing the existence of conflicting roles that might bias a contractor's judgment, and (b) preventing an unfair competitive advantage. If you have an unfair competitive advantage or a conflict of interest, the state may withhold award. Before withholding award on these grounds, an offeror will be notified of the concerns and provided a reasonable opportunity to respond. Efforts to avoid or mitigate such concerns, including restrictions on future activities, may be considered. [02-2A047-1]

DEADLINE FOR SUBMISSION OF OFFER (JAN 2004)

Any offer received after the Procurement Officer of the governmental body or his designee has declared that the time set for opening has arrived, shall be rejected unless the offer has been delivered to the designated purchasing office or the governmental bodies mail room which services that purchasing office prior to the bid opening. [R.19-445.2070(H)] [02-2A050-1]

DRUG FREE WORK PLACE CERTIFICATION (JAN 2004)

By submitting an Offer, Contractor certifies that, if awarded a contract, Contractor will comply with all applicable provisions of The Drug-free Workplace Act, Title 44, Chapter 107 of the South Carolina Code of Laws, as amended. [02-2A065-1]

DUTY TO INQUIRE (JAN 2006)

Offeror, by submitting an Offer, represents that it has read and understands the Solicitation and that its Offer is made in compliance with the Solicitation. Offerors are expected to examine the Solicitation thoroughly and should request an explanation of any ambiguities, discrepancies, errors, omissions, or conflicting statements in the Solicitation. Failure to do so will be at the Offeror's risk. Offeror assumes responsibility for any patent ambiguity in the Solicitation that Offeror does not bring to the State's attention. [02-2A070-1]

ETHICS CERTIFICATE (MAY 2008)

By submitting an offer, the offeror certifies that the offeror has and will comply with, and has not, and will not, induce a person to violate Title 8, Chapter 13 of the South Carolina Code of Laws, as amended (ethics act). The following statutes require special attention: Section 8-13-700, regarding use of official position for financial gain; Section 8-13-705, regarding gifts to influence action of public official; Section 8-13-720, regarding offering money for advice or assistance of public official; Sections 8-13-755 and 8-13-760, regarding restrictions on employment by former public official; Section 8-13-775, prohibiting public official with economic interests from acting on contracts; Section 8-13-790, regarding recovery of kickbacks; Section 8-13-1150, regarding statements to be filed by consultants; and Section 8-13-1342, regarding restrictions on contributions by contractor to candidate who participated in awarding of contract. The state may rescind any contract and recover all amounts expended as a result of any action taken in violation of this provision. If contractor participates, directly or indirectly, in the evaluation or award of public contracts, including without limitation, change orders or task orders regarding a public contract, contractor shall, if required by law to file such a statement, provide the statement required by Section 8-13-1150 to the procurement officer at the same time the law requires the statement to be filed. [02-2A075-2]

OMIT TAXES FROM PRICE (JAN 2004)

Do not include any sales or use taxes in Your price that the State may be required to pay. [02-2A080-1]

PROTESTS (JUNE 2006)

Any prospective bidder, offeror, contractor, or subcontractor who is aggrieved in connection with the solicitation of a contract shall protest within fifteen days of the date of issuance of the applicable solicitation document at issue. Any actual bidder, offeror, contractor, or subcontractor who is aggrieved in connection with the intended award or award of a contract shall protest within ten days of the date notification of award is posted in accordance with this code. A protest shall be in writing, shall set forth the grounds of the protest and the relief requested with enough particularity to give notice of the issues to be decided, and must be received by the appropriate Chief Procurement Officer within the time provided. See clause entitled "Protest-CPO". [Section 11-35-4210] [02-2A085-1]

PUBLIC OPENING (JAN 2004)

Offers will be publicly opened at the date/time and at the location identified on the Cover Page, or last Amendment, whichever is applicable. [02-2A090-1]

QUESTIONS FROM OFFERORS (JAN 2004)

(a) Any prospective offeror desiring an explanation or interpretation of the solicitation, drawings, specifications, etc., must request it in writing. Questions must be received by the Procurement Officer no later than five (5) days prior to opening unless otherwise stated on the Cover Page. Label any communication regarding your questions with the name of the procurement officer, and the solicitation's title and number. Oral explanations or instructions will not be binding. Any information given a prospective offeror concerning a solicitation will be furnished promptly to all other prospective offerors as an Amendment to the solicitation, if that information is necessary for submitting offers or if the lack of it would be prejudicial to other prospective offerors. (b) The State seeks to permit maximum practicable competition. Offerors are urged to advise the Procurement Officer -- as soon as possible -- regarding any aspect of this procurement, including any aspect of the Solicitation, that unnecessarily or inappropriately limits full and open competition. [02-2A095-1]

REJECTION/CANCELLATION (JAN 2004)

The State may cancel this solicitation in whole or in part. The State may reject any or all proposals in whole or in part. [SC Code Section 11-35-1710 & R.19-445.2065] [02-2A100-1]

RESPONSIVENESS/IMPROPER OFFERS (JAN 2004)

(a) Bid as Specified. Offers for supplies or services other than those specified will not be considered unless authorized by the Solicitation.

(b) Multiple Offers. Offerors may submit more than one Offer, provided that each Offer has significant differences other than price. Each separate Offer must satisfy all Solicitation requirements. If this solicitation is an Invitation for Bids, each separate offer must be submitted as a separate document. If this solicitation is a Request for Proposals, multiple offers may be submitted as one document, provided that you clearly differentiate between each offer and you submit a separate cost proposal for each offer, if applicable.

(c) Responsiveness. Any Offer which fails to conform to the material requirements of the Solicitation may be rejected as nonresponsive. Offers which impose conditions that modify material requirements of the Solicitation may be rejected. If a fixed price is required, an Offer will be rejected if the total possible cost to the State cannot be determined. Offerors will not be given an opportunity to correct any material nonconformity. Any deficiency resulting from a minor informality may be cured or waived at the sole discretion of the Procurement Officer. [R.19-445.2070 and Section 11-35-1520(13)]

(d) Price Reasonableness: Any offer may be rejected if the Procurement Officer determines in writing that it is unreasonable as to price. [R. 19-445.2070].

(e) Unbalanced Bidding. The State may reject an Offer as nonresponsive if the prices bid are materially unbalanced between line items or subline items. A bid is materially unbalanced when it is based on prices significantly less than cost for some work and prices which are significantly overstated in relation to cost for other work, and if there is a reasonable doubt that the bid will result in the lowest overall cost to the State even though it may be the low evaluated bid, or if it is so unbalanced as to be tantamount to allowing an advance payment.
[02-2A105-1]

RESTRICTIONS APPLICABLE TO OFFERORS (JAN 2004)

Violation of these restrictions may result in disqualification of your offer, suspension or debarment, and may constitute a violation of the state Ethics Act. (a) After issuance of the solicitation, ***you agree not to discuss this procurement activity in any way with the Using Governmental Unit or its employees, agents or officials*** All communications must be solely with the Procurement Officer. This restriction may be lifted by express written permission from the Procurement Officer. This restriction expires once a contract has been formed. (b) Unless otherwise approved in writing by the Procurement Officer, ***you agree not to give anything to any Using Governmental Unit or its employees, agents or officials prior to award.*** [02-2A110-1]

SIGNING YOUR OFFER (JAN 2004)

Every Offer must be signed by an individual with actual authority to bind the Offeror. (a) If the Offeror is an individual, the Offer must be signed by that individual. If the Offeror is an individual doing business as a firm, the Offer must be submitted in the firm name, signed by the individual, and state that the individual is doing business as a firm. (b) If the Offeror is a partnership, the Offer must be submitted in the partnership name, followed by the words by its Partner, and signed by a general partner. (c) If the Offeror is a corporation, the Offer must be submitted in the corporate name, followed by the signature and title of the person authorized to sign. (d) An Offer may be submitted by a joint venturer involving any combination of individuals, partnerships, or corporations. If the Offeror is a joint venture, the Offer must be submitted in the name of the Joint Venture and signed by every participant in the joint venture in the manner prescribed in paragraphs (a) through (c) above for each type of participant. (e) If an Offer is signed by an agent, other than as stated in subparagraphs (a) through (d) above, the Offer must state that is has been signed by an Agent. Upon request, Offeror must provide proof of the agent's authorization to bind the principal. [02-2A115-1]

STATE OFFICE CLOSINGS (JAN 2004)

If an emergency or unanticipated event interrupts normal government processes so that offers cannot be received at the government office designated for receipt of bids by the exact time specified in the solicitation, the time specified for receipt of offers will be deemed to be extended to the same time of day specified in the solicitation on the first work day on which normal government processes resume. In lieu of an automatic extension, an Amendment may be issued to reschedule bid opening. If state offices are closed at the time a pre-bid or pre-proposal conference is scheduled, an Amendment will be issued to reschedule the conference. Useful information may be available at:
http://scemd.org/index.php/department/response/severe-winter-weather
[02-2A120-2]

SUBMITTING CONFIDENTIAL INFORMATION (AUG 2002)

(An overview is available at www.procurement.sc.gov) For every document Offeror submits in response to or with regard to this solicitation or request, Offeror must separately mark with the word "CONFIDENTIAL" every page, or portion thereof, that Offeror contends contains information that is exempt from public disclosure because it is either (a) a trade secret as defined in Section 30-4-40(a)(1), or (b) privileged and confidential, as that phrase is used in Section 11-35-410. For every document Offeror submits in response to or with regard to this solicitation or request, Offeror must separately mark with the words "TRADE SECRET" every page, or portion thereof, that Offeror contends contains a trade secret as that term is defined by Section 39-8-20 of the Trade Secrets Act. For every document Offeror submits in response to or with regard to this solicitation or request, Offeror must separately mark with the word "PROTECTED" every page, or portion thereof, that Offeror contends is protected by Section 11-35-1810. All markings must be conspicuous; use color, bold, underlining, or some other method in order to conspicuously distinguish the mark from the other text. Do not mark your entire response (bid, proposal, quote, etc.) as confidential, trade secret, or protected. If your response, or any part thereof, is improperly marked as confidential or trade secret or protected, the State may, in its sole discretion, determine it nonresponsive. If only portions of a page are subject to some protection, do not mark the entire page. By submitting a response to this solicitation or request, Offeror (1) agrees to the public disclosure of every page of every document regarding this solicitation or request that was submitted at any time prior to entering into a contract (including, but not limited to, documents contained in a response, documents submitted to clarify a response, and documents submitted during negotiations), unless the page is conspicuously marked "TRADE SECRET" or "CONFIDENTIAL" or "PROTECTED", (2) agrees that any information not marked, as required by these bidding instructions, as a "Trade Secret" is not a trade secret as defined by the Trade Secrets Act, and (3) agrees that, notwithstanding any claims or markings otherwise, any prices, commissions, discounts, or other financial figures used to determine the award, as well as the final contract amount, are subject to public disclosure. In determining whether to release documents, the State will detrimentally rely on Offeror's marking of documents, as required by these bidding instructions, as being either "Confidential" or "Trade Secret" or "PROTECTED". By submitting a response, Offeror agrees to defend, indemnify and hold harmless the State of South Carolina, its officers and employees, from every claim, demand, loss, expense, cost, damage or injury, including attorney's fees, arising out of or resulting from the State withholding information that Offeror marked as "confidential" or "trade secret" or "PROTECTED". (All references to S.C. Code of Laws.) [02-2A125-1]

SUBMITTING YOUR OFFER OR MODIFICATION (JAN 2004)

(a) Offers and offer modifications shall be submitted in sealed envelopes or packages (unless submitted by electronic means) - (1) Addressed to the office specified in the Solicitation; and (2) Showing the time and date specified for opening, the solicitation number, and the name and address of the bidder. (b) If you are responding to more than one solicitation, each offer must be submitted in a different envelope or package. (c) Each Offeror must submit the number of copies indicated on the Cover Page. (d) Offerors using commercial carrier services shall ensure that the Offer is addressed and marked on the outermost envelope or wrapper as prescribed in paragraphs (a)(1) and (2) of this provision when delivered to the office specified in the Solicitation. (e) Facsimile or e-mail offers, modifications, or withdrawals, will not be considered unless authorized by the Solicitation. (f) Offers submitted by electronic commerce shall be considered only if the electronic commerce method was specifically stipulated or permitted by the solicitation. [02-2A130-1]

TAX CREDIT FOR SUBCONTRACTING WITH DISADVANTAGED SMALL BUSINESSES (JAN 2008)

Pursuant to Section 12-6-3350, a taxpayer having a contract with this State who subcontracts with a socially and economically disadvantaged small business is eligible for an income tax credit equal to four percent of the payments to that subcontractor for work pursuant to the contract. The subcontractor must be certified as a socially and economically disadvantaged small business as defined in Section 11-35-5010 and regulations pursuant to it. The credit is limited to a maximum of fifty thousand dollars annually. A taxpayer is eligible to claim the credit for ten consecutive taxable years beginning with the taxable year in which the first payment is made to the subcontractor that qualifies for the credit. After the above ten consecutive taxable years, the taxpayer is no longer eligible for the credit. A taxpayer claiming the credit shall maintain evidence of work performed for the contract by the subcontractor. The credit may be claimed on Form TC-2, "Minority Business Credit." A copy of the subcontractor's certificate from the Governor's Office of Small and Minority Business (OSMBA) is to be attached to the contractor's income tax return. Questions regarding the tax credit and how to file are to be referred to: SC Department of Revenue, Research and Review, Phone: (803) 898-5786, Fax: (803) 898-5888. Questions regarding subcontractor certification are to be referred to: Governor's Office of Small and Minority Business Assistance, Phone: (803) 734-0657, Fax: (803) 734-2498. [02-2A135-1]

TAXPAYER IDENTIFICATION NUMBER (JAN 2004)

(a) If Offeror is owned or controlled by a common parent as defined in paragraph (b) of this provision, Offeror shall submit with its Offer the name and TIN of common parent.
(b) Definitions: "Common parent," as used in this provision, means that corporate entity that owns or controls an affiliated group of corporations that files its Federal income tax returns on a consolidated basis, and of which the offeror is a member. "Taxpayer Identification Number (TIN)," as used in this provision, means the number required by the Internal Revenue Service (IRS) to be used by the offeror in reporting income tax and other returns. The TIN may be either a Social Security Number or an Employer Identification Number.
(c) If Offeror does not have a TIN, Offeror shall indicate if either a TIN has been applied for or a TIN is not required. If a TIN is not required, indicate whether (i) Offeror is a nonresident alien, foreign corporation, or foreign partnership that does not have income effectively connected with the conduct of a trade or business in the United States and does not have an office or place of business or a fiscal paying agent in the United States; (ii) Offeror is an agency or instrumentality of a state or local government; (iii) Offeror is an agency or instrumentality of a foreign government; or (iv) Offeror is an agency or instrumentality of the Federal Government. [02-2A140-1]

VENDOR REGISTRATION MANDATORY (JAN 2006)

You must have a state vendor number to be eligible to submit an offer. To obtain a state vendor number, visit www.procurement.sc.gov and select New Vendor Registration. (To determine if your business is already registered, go to "Vendor Search"). Upon registration, you will be assigned a state vendor number. Vendors must keep their vendor information current. If you are already registered, you can update your information by selecting Change Vendor Registration. (Please note that vendor registration does not substitute for any obligation to register with the S.C. Secretary of State or S.C. Department of Revenue. You can register with the agencies at http://www.scbos.com/default.htm) [02-

2A145-1]

WITHDRAWAL OR CORRECTION OF OFFER (JAN 2004)

Offers may be withdrawn by written notice received at any time before the exact time set for opening. If the Solicitation authorizes facsimile offers, offers may be withdrawn via facsimile received at any time before the exact time set for opening. A bid may be withdrawn in person by a bidder or its authorized representative if, before the exact time set for opening, the identity of the person requesting withdrawal is established and the person signs a receipt for the bid. The withdrawal and correction of Offers is governed by S.C. Code Section 11-35-1520 and Regulation 19-445.2085. [02-2A150-1]

II. INSTRUCTIONS TO OFFERORS -- B. SPECIAL INSTRUCTIONS

CONTENTS OF OFFER (RFP) -- SPO (JAN 2006)

(a) Offers should be complete and carefully worded and should convey all of the information requested.
(b) Offers should be prepared simply and economically, providing a straightforward, concise description of offeror's capabilities to satisfy the requirements of the RFP. Emphasis should be on completeness and clarity of content.
(c) Each copy of your offer should be bound in a single volume where practical. All documentation submitted with your offer should be bound in that single volume.
(d) If your offer includes any comment over and above the specific information requested in the solicitation, you are to include this information as a separate appendix to your offer. Offers which include either modifications to any of the solicitation's contractual requirements or an offeror's standard terms and conditions may be deemed non-responsive and not considered for award.
[02-2B040-1]

CLARIFICATION (NOV 2007)

Pursuant to Section 11-35-1520(8), the Procurement Officer may elect to communicate with you after opening for the purpose of clarifying either your offer or the requirements of the solicitation. Such communications may be conducted only with offerors who have submitted an offer which obviously conforms in all material aspects to the solicitation. Clarification of an offer must be documented in writing and included with the offer. Clarifications may not be used to revise an offer or the solicitation. [Section 11-35-1520(8); R.19-445.2080] [02-2B055-1]

DISCUSSIONS and NEGOTIATIONS (NOV 2007)

Submit your best terms from a cost or price and from a technical standpoint. Your proposal may be evaluated and your offer accepted without any discussions, negotiations, or prior notice. Ordinarily, nonresponsive proposals will be rejected outright. Nevertheless, the State may elect to conduct discussions, including the possibility of limited proposal revisions, but only for those proposals reasonably susceptible of being selected for award. If improper revisions are submitted, the State may elect to consider only your unrevised initial proposal. [11-35-1530(6); R.19-445.2095(I)] The State may also elect to conduct negotiations, beginning with the highest ranked offeror, or seek best and final offers, as provided in Section 11-35-1530(8). If negotiations are conducted, the State may elect to disregard the negotiations and accept your original proposal. [02-2B060-1]

MAIL PICKUP (JAN 2006)

The State Procurement Office picks up all mail from The US Postal Service once daily around 8:30 a.m. (excluding weekends and holidays). See provision entitled Deadline for Submission of Offer. [02-2B080-1]

ON-LINE BIDDING INSTRUCTIONS (NOV 2007)

(a) Mandatory Registration: **For on-line bidding, you must register before you can submit an offer! See instructions in clause entitled** "VENDOR REGISTRATION MANDATORY".

(b) Steps for On-Line Bidding:
1 The link provided on the solicitation's Cover Page will take you to our web based on-line bidding system, where you will enter and/or upload your offer.
2 Follow the general user instructions posted at www.procurement.sc.gov under the heading "Submitting Offers On-Line".
[02-2B105-1]

IMPORTANT INFORMATION FOR ALL OFFERORS

All Offerors desiring to respond to this solicitation should register and submit your response online. To respond online, you must follow the new South Carolina Enterprise Information System (SCEIS) vendor registration instructions found at the South Carolina Procurement Information Center website address of: http://www.procurement.sc.gov/ . If you registered as a vendor prior to November 5, 2007, you must either update your existing registration or create a new vendor registration in the new version of the SCEIS system. Once the registration process is complete, the system will generate a SCEIS vendor user ID and password. The Offeror must keep this information current or you will not be able to submit future bids.

OFFERORS ENCOUNTERING REGISTRATION PROBLEMS SHOULD CONTACT:

DSIT Help Desk (803) 896-0001 Select Option 1 then Option 1

Monday – Friday 8:00 AM – 4:30 PM

SCEIS Service Desk Vendor Ticket Form

Additional vendor instructions concerning submitting offers can be found at:

http://procurement.sc.gov/PS/vendor/PS-vendor-submitting-offers.phtm

---

NUMBER OF COPIES

Offerors will need to follow these instructions carefully when responding to the solicitation online.

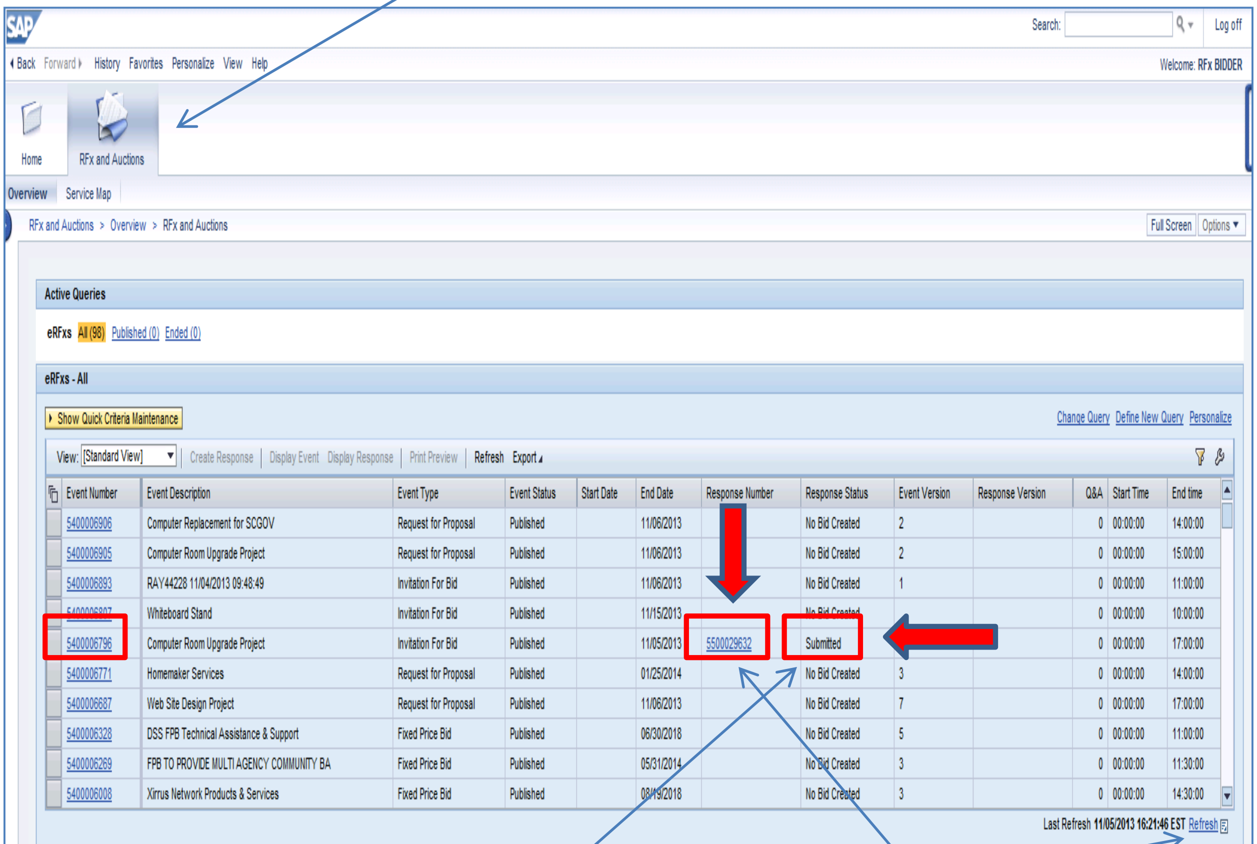
1. The original solicitation response should be submitted on-line and is the official response.
2. All Offerors should attach all additional requested documents to their response in the online system. These documents can be attached under the **"Notes and Attachment"** tab in the online system either on the main response page or under the necessary line item.

IF YOU QUALIFY YOUR OFFER WITH A STATEMENT SUCH AS, "THIS IS NOT AN OFFER", THE OFFER WILL BE DEEMED "NON-RESPONSIVE" AND REMOVED FROM FURTHER CONSIDERATION.

OFFEROR BID SUBMISSION VALIDATION

After submitting an online response to a solicitation, Offerors may validate their submission with the following steps:

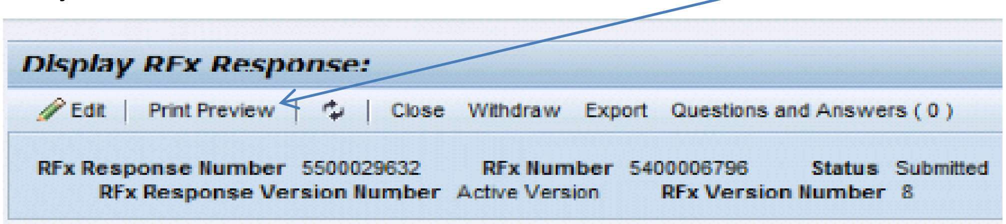
STEP 1: Go back to the initial **'RFx and Auctions'** screen



STEP 2: Select the **'Refresh'** button to update the screen.

STEP 3: Make sure the RFx you responded to, has your specific bid response number **'55xxxxxxxx'** displayed in the Response Number column and the Response Status column has a status of **'Submitted'**, before you log off.

NOTE: You also have the ability to print out a copy of your submission by selecting the **'Print Preview'** button after your offer has been submitted.



OPENING PROPOSALS -- PRICES NOT DIVULGED (JAN 2006)

In competitive sealed proposals, prices will not be divulged at opening. [Section 11-35-1530 & R. 19-445.2095(c) (1)] [02-2B110-1]

PROTEST - CPO - MMO ADDRESS (JUNE 2006)

Any protest must be addressed to the Chief Procurement Officer, Materials Management Office, and submitted in writing
(a) by email to protest-mmo@mmo.state.sc.us, or
(b) by post or delivery to 1201 Main Street, Suite 600, Columbia, SC 29201. [02-2B122-1]

III. SCOPE OF WORK/SPECIFICATIONS

Background:

Effective October 1, 2005, the State Retirement System Preservation and Investment Reform Act (Act 153) established the South Carolina Retirement System Investment Commission (RSIC) and devolved fiduciary responsibility for all investments of the Retirement System upon the RSIC, which is a seven-member commission made up of five appointed members who must meet statutory criteria to serve, and the State Treasurer and the Executive Director of the Public Employee Benefit Authority (PEBA) who serve by virtue of their official capacities. Act 153 also provided that equity investments cannot exceed 70 percent of the total investment portfolio (formerly 40 percent) and created the position of Chief Investment Officer.

The assets of the Retirement System had historically been invested only in fixed income investments until a constitutional amendment was ratified in 1997. The amendment allowed the Retirement System to invest in "equity securities of a corporation within the United States that is registered on a national securities exchange as provided in the Securities Exchange Act, 1934, or a successor act, or quoted through the National Association of Securities Dealers Automatic Quotation System, or a similar service." S.C. Const. art. X, §16. The Retirement System began investing in equities in June 1999, although full diversification of the portfolio remained constrained by the state constitution. In November 2006, a constitutional amendment allowing for full diversification of the Retirement System's Portfolio was approved in a statewide referendum and subsequently ratified by the Legislature in February 2007. Since ratification, the Commission has taken steps to transition to a more diversified asset allocation, targeting approximately 40% percent of the Portfolio's allocation to alternative asset classes, including private equity, strategic partnerships, opportunistic credit, absolute return strategies, etc.   The most recent asset allocation can be found on our website http://www.rsic.sc.gov/.

The RSIC currently has authority to employ 42 full time equivalent (FTE) positions.

The RSIC investment staff manage the portfolio utilizing internal and external investment managers. Internal management consists of cash management, short duration fixed income, core fixed income and basket trades. There are currently 17 investment professionals on staff including the CIO and the Deputy CIO. There are 4 open investment FTEs for which the RSIC is currently recruiting. There are three attorneys on staff and one legal vacancy, and 17 other operational positions including Operational Due Diligence, Performance and Reporting, Compliance and Internal Audit.

The Annual Investment Plan and the Statement of Investment Objectives and Policies can also be found on the website.

Mission:

The RSIC is responsible for investing and managing all assets held in trust for the participants and beneficiaries of five governmental defined benefit plans collectively referred to hereinafter as the "Retirement System" or "Systems."

The RSIC's primary investment objective is to provide, over long-term periods, an adequate pool of assets to support the benefit obligations to participants and beneficiaries of the Retirement System. A secondary objective is to reduce, over time, the unfunded liability of the Retirement System. In pursuing these objectives, the RSIC seeks to achieve a high level of investment return consistent with a prudent level of portfolio risk.

Goal of the Compensation Plan:

The total direct compensation plan presently is a combination of ~~salary~~ Base Salary and Performance Incentive Compensation ("PIC"). The compensation plan should be comprehensive in scope and competitive in design so to:

- Enable the Commission to recruit and retain superior talent,
- Focus staff's efforts on long term returns with a prudent level of risk, and
- Encourage staff to develop a strong commitment to the performance of the Portfolio through a collective, team-oriented focus and demonstrated individual accountability.~~to help the Commission recruit and retain superior talent, align the focus to be on long term returns with a prudent level of risk, to encourage staff to develop a strong commitment to the performance of the Portfolio while accomplishing a strong collective focus and individual accountability and provide a clearly defined compensation plan for all staff members.~~

Scope of Work:

The RSIC is seeking a compensation consultant for a three year term. The scope of work will vary in year 1 and year 2 and 3.

Year 1 Scope:

Review and compare the current total direct compensation plan (including salary levels and ranges for each position and the Performance Incentive Compensation (PIC) plan design, target awards, and eligibility) for all staff (including executive management, investment staff, attorneys, auditors, ~~and~~ investment operations staff and other operations staff such as IT, HR, and administrative staff) to best practice in the Investment Industry for total direct compensation (base and variable pay with variable pay potentially inclusive of performance incentive and long-term incentive pay elements). Additionally, recommend a broadband classification system to include job family structure and a job evaluation process (or other recommended system concept/design) to reduce the need to reclassify positions due to work assignment and organizational changes; to allow flexibility in organizational structure development/management; to emphasize pay administration and job evaluation to move employees through the pay bands; and to provide maximum flexibility in the day-to-day administration of the classification and compensation program in order to facilitate the accomplishment of Commission mission and goals.

Present all recommendations on the compensation plan as described above for review by the Human Resources & Compensation (HRC) Committee of the Commission and/or the full Commission. Peers to consider in evaluating the compensation plan should include but not be limited to other public pension funds, endowments, foundations, banks and asset management firms with investment portfolios of similar complexity. Further segregate the data by region, Assets Under Management (AUM), and internal/external management mix of assets. Provide an overview of other public funds incentive compensation plans. Solicit through interview or survey feedback from analysts, managers, senior and executive RSIC staff, and Commissioners regarding the PIC plans and total compensation plans.

Year 1 Deliverables[1]:

1) Meet in person or via phone with RSIC staff and Commissioners as needed throughout the project, including during public meetings as well as individual interviews.
2) Before ~~October 17, 2014~~January 30, 2015, provide a report detailing the structure of compensation packages in other public pension plans. This report should describe if PIC plans are offered, if so how they are structured and any known advantages or disadvantages of the PIC plans.
3) Before ~~November 14, 2014~~February 20, 2015, deliver multiple options for a total compensation package. This should include potential compensations plans that include varying levels of PIC and salary as well as various factors that should be utilized in determining the level of salary and/or PIC. The advantages and disadvantages of each potential compensation plan should be outlined.
4) Before ~~November 29, 2014~~March 13, 2015, and based upon input from the Commission, deliver a recommended compensation plan that meets the goals as described above and addresses the salary level ranges, including base salary versus bonuses, the variable pay plan ~~the PIC plan~~ (design, target awards, and eligibility) for all staff members and positions to be effective for the fiscal year ending~~ed~~ June 30, 2015 as well as the recommended classification system and its processes and tools.
5) Before ~~October 17, 2014~~February 20, 2015 develop and recommend a custom peer group to be used as a basis for salary and ~~PIC~~ variable pay on an on-going basis.
6) Before ~~November 14, 2014~~March 13, 2015 develop and recommend salary ranges for each full time position with the RSIC based upon custom peer data as chosen by the Commission.

Year 2 & 3 Scope and Deliverables:

1) Provide assistance to the HRC Committee in fulfilling its duty to conduct an annual review of the RSIC implementation of the Compensation Policy.
2) Provide a report to the HRC Committee that summarizes and comments on the effectiveness and completeness of the implementation of the ~~PIC~~ variable pay plan each year.
3) Provide annual updates to the pay ranges for each position completed as part of Year 1 scope of work. Assist in developing pay ranges for any new positions ~~creating~~ created during Year 2 or 3.
4) Conduct presentations/phone interviews to the HRC Committee and/or Commission, as needed.

Experience:

1) Provide a background of your company.
2) Provide a background of the consultants who will be assigned to our account.
3) Provide a copy of a previous compensation evaluation/development work product.
4) Provide a list of previous clients including the Assets Under Management (AUM), region and staff size. Specifically provide how much of the assets are allocated to alternative investments. Provide entity type (public pension fund, endowment, foundation, etc.), dates of service and type of service performed.
5) Provide at least three current references.

Cost:

1) Provide the cost structure for this engagement. ~~-~~Break out the specific deliverables and related cost for each year of the engagement. ~~cost for each year of the engagement.~~

Methodology:

1) Describe the methodology that will be used to evaluate and develop the total compensation plan for RSIC staff. Specifically identify additional information that your firm will have to gather and the time frames required for gathering that information in order to complete this engagement. ~~the compensation levels and PIC plan for RSIC staff. Specifically identify additional information that your firm will have to gather and the time frames required for gathering that information in order to complete this engagement.~~
2) Specifically identify any efforts that would need to be made by RSIC in order for you to complete the study. The deliverables must be completed by ~~November 14~~February 27, 2015~~4~~. Please indicate if you can meet this requirement.

Potential Vendors:

1) **Mercer**
   Josh Wilson
   3560 Lenox Road, Suite 2400
   Atlanta, GA
   Josh.wilson@mercer.com
   (404) 442-3514

2) **McLagan Partners**
   Adam Barnett
   1600 Summer Street
   Suite 601
   Stamford, CT 06905
   abarnett@mclagan.com
   (203) 602-1200

3) **Global Governance Advisors**
   Brad Kelly
   Global Governance Advisors
   690 SW 1st Court, Unit 2702
   Miami, FL 33130
   Brad.kelly@ggainc.com
   416-707-4614

4) **Towers Watson**
   Thomas Kelly
   1 Bank of America Center, Suite 3050
   150 North College Street
   Charlotte, NC 28202
   Thomas.kelly@towerswatson.com
   (704) 620-6504

5) **McKinsey & Company**
   Andrew Sellgren or Chuck Self

100 North Tryon Street
Suite 2720
Charlotte, NC 28202
Andrew_sellgren@mckinsey.com
Chuck_self@mckinsey.com
(704) 954-5000

6) **Deloitte**
Steve Hall
150 Fayetteville Street, Suite 1000
Raleigh, NC 27601
stevehall@deloitte.com
(803) 767-1102

7) **Public Sector Consultants**
Matthew Weatherly
1215 West Rio Salado Parkway, Suite 109
Tempe, Arizona 85281
mweatherly@compensationconsulting.com
(888) 522-7772
(480) 947-6164

DELIVERY/PERFORMANCE LOCATION -- SPECIFIED (JAN 2006)

After award, all deliveries shall be made and all services provided to the following address, unless otherwise specified:

S.C. Retirement System Investment Commission
1201 Main Street, Suite 1510
Columbia SC 29201

[03-3030-1]

IV. INFORMATION FOR OFFERORS TO SUBMIT

INFORMATION FOR OFFERORS TO SUBMIT -- EVALUATION (JAN 2006)

In addition to information requested elsewhere in this solicitation, offerors should submit the following information for purposes of evaluation:

Cost:

2) Provide the cost structure for this engagement. Break out the cost for each year of the engagement.

Methodology:

3) Describe the methodology that will be used to evaluate and develop the compensation levels and PIC plan for RSIC staff. Specifically identify additional information that your firm will have to gather and the time frames required for gathering that information in order to complete this engagement.
4) Specifically identify any efforts that would need to be made by RSIC in order for you to complete the study. The deliverables must be completed by November 14, 2014. Please indicate if you can meet this requirement.

[04-4005-1]

INFORMATION FOR OFFERORS TO SUBMIT -- GENERAL (JAN 2006)

Offeror shall submit a signed Cover Page and Page Two. Offeror should submit all other information and documents requested in this part and in parts II.B. Special Instructions; III. Scope of Work; V. Qualifications; VIII. Bidding Schedule/Price Proposal; and any appropriate attachments addressed in section IX. Attachments to Solicitations. [04-4010-1]

MINORITY PARTICIPATION (JAN 2006)

Is the bidder a South Carolina Certified Minority Business? [ ] Yes [ ] No

Is the bidder a Minority Business certified by another governmental entity? [ ] Yes [ ] No

If so, please list the certifying governmental entity: ________________________

Will any of the work under this contract be performed by a SC certified Minority Business as a subcontractor? [ ] Yes [ ] No

If so, what percentage of the total value of the contract will be performed by a SC certified Minority Business as a subcontractor? _____________

Will any of the work under this contract be performed by a minority business certified by another governmental entity as a subcontractor? [ ] Yes [ ] No

If so, what percentage of the total value of the contract will be performed by a minority business certified by another governmental entity as a subcontractor? _____________

If a certified Minority Business is participating in this contract, please indicate all categories for which the Business is certified:

[ ] Traditional minority
[ ] Traditional minority, but female
[ ] Women (Caucasian females)
[ ] Hispanic minorities

[ ] DOT referral (Traditional minority)
[ ] DOT referral (Caucasian female)
[ ] Temporary certification
[ ] SBA 8 (a) certification referral
[ ] Other minorities (Native American, Asian, etc.)

(If more than one minority contractor will be utilized in the performance of this contract, please provide the information above for each minority business.)

For a list of certified minority firms, please consult the Minority Business Directory, which is available at the following URL: http://www.govoepp.state.sc.us/osmba/
[04-4015-1]

SUBMITTING REDACTED OFFERS (FEB 2007)

You are required to mark the original copy of your offer to identify any information that is exempt from public disclosure. You must do so in accordance with the clause entitled "Submitting Confidential Information." In addition, you must also submit one complete copy of your offer from which you have removed any information that you marked as exempt, i.e., a redacted copy. The information redacted should mirror in ever detail the information marked as exempt from public disclosure. The redacted copy should (i) reflect the same pagination as the original, (ii) show the empty space from which information was redacted, and (iii) be submitted on magnetic media. (See clause entitled "Magnetic Media Required Format.") Except for the redacted information, the CD must be identical to the original hard copy. Portable Document Format (.pdf) is preferred. [04-4030-1]

V. QUALIFICATIONS

QUALIFICATION OF OFFEROR (JAN 2006)

To be eligible for award of a contract, a prospective contractor must be responsible. In evaluating an Offeror's responsibility, the State Standards of Responsibility [R.19-445.2125] and information from any other source may be considered. An Offeror must, upon request of the State, furnish satisfactory evidence of its ability to meet all contractual requirements. Unreasonable failure to supply information promptly in connection with a responsibility inquiry may be grounds for determining that you are ineligible to receive an award. S.C. Code Section 11-35-1810. [05-5005-1]

QUALIFICATIONS -- MANDATORY MINIMUM (JAN 2006)

(a) In order to be qualified to receive award, you must meet the following mandatory minimum qualifications:

1. **Vendor must demonstrate previous experience in developing or evaluating compensation levels ~~and performance incentive compensation plans for clients such as public pension funds, endowments, foundations, banks or asset managers with portfolios of similar complexity to that of the RSIC.~~ and variable pay compensation plans for clients such as public pension funds, endowments, foundations, banks or asset managers with portfolios of similar complexity to that of the RSIC.**

2. **Vendor must have experience in evaluating compensation ~~and PIC structures for alternative asset classes.~~ and variable pay structures for alternative asset classes.**

(b) The Procurement Officer may, in his discretion, consider (1) the experience of a predecessor firm or of a firm's key personnel which was obtained prior to the date offeror was established, and/or (2) any subcontractor proposed by offeror.
(c) Provide a detailed, narrative statement providing adequate information to establish that you meet all the requirements stated in subparagraph (a) above. Include all appropriate documentation.
[05-5010-1]

QUALIFICATIONS -- REQUIRED INFORMATION (Modified)

In order to evaluate your responsibility, offeror shall submit the following information or documentation for the offeror and any subcontractor, if the value of subcontractor's portion of the work exceeds 10% of your price (if in doubt, provide the information):
(a) Provide a background of your company.
(b) Your most current financial statement, financial statements for your last two fiscal years, and information reflecting your current financial position. If you have audited financial statements meeting these requirements, you must provide those statements. [Reference Statement of Concepts No. 5 (FASB, December, 1984)]
(c) A background of the consultants who will be assigned to our account.
(d) A copy of a previous compensation evaluation/development work product.
(e) A list of previous clients including the Assets Under Management (AUM), region and staff size. Specifically provide how much of the assets are allocated to alternative investments. Provide entity type (public pension fund, endowment, foundation, etc.), dates of service and type of service performed.
(f) At least three current references.

SUBCONTRACTOR -- IDENTIFICATION (JAN 2006)

If you intend to subcontract with another business for any portion of the work and that portion exceeds 10% of your price, your offer must identify that business and the portion of work which they are to perform. Identify potential subcontractors by providing the business name, address, phone, taxpayer identification number, and point of contact. In determining your responsibility, the state may evaluate your proposed subcontractors. [05-5030-1]

VI. AWARD CRITERIA

AWARD CRITERIA -- PROPOSALS (JAN 2006)

Award will be made to the highest ranked, responsive and responsible offeror whose offer is determined to be the most advantageous to the State. [06-6030-1]

AWARD TO ONE OFFEROR (JAN 2006)

Award will be made to one Offeror. [06-6040-1]

COMPETITION FROM PUBLIC ENTITIES (JAN 2006)

If a South Carolina governmental entity submits an offer, the Procurement Officer will, when determining the lowest offer, add to the price provided in any offers submitted by non-governmental entities a percentage equivalent to any applicable sales or use tax. S.C. Code Ann. Regs 117-304.1 (Supp. 2004). [06-6057-1]

EVALUATION FACTORS -- PROPOSALS (JAN 2006)

Offers will be evaluated using only the factors stated below. Evaluation factors are stated in the relative order of importance, with the first factor being the most important. Once evaluation is complete, all responsive offerors will be ranked from most advantageous to least advantageous.

Evaluation Committee:
RSIC Staff will work with State Procurement to evaluate vendors. The final selection will be presented to the HRC Committee prior to final approval.

Subject Matter Experts:
John Farmer
Danny Varat
Andrew Chernick

Commissioner Oversight:
Ed Giobbe
Rebecca Gunnlaugsson
Ron Wilder

Evaluation Criteria:
Experience (Most important – 50~~60~~%)
Cost (30%)
Methodology (20~~10~~%)

[06-6065-1]

VII. TERMS AND CONDITIONS -- A. GENERAL

ASSIGNMENT (JAN 2006)

No contract or its provisions may be assigned, sublet, or transferred without the written consent of the Procurement Officer. [07-7A004-1]

BANKRUPTCY (JAN 2006)

(a) Notice. In the event the Contractor enters into proceedings relating to bankruptcy, whether voluntary or involuntary, the Contractor agrees to furnish written notification of the bankruptcy to the Using Governmental Unit. This notification shall be furnished within five (5) days of the initiation of the proceedings relating to the bankruptcy filing. This notification shall include the date on which the bankruptcy petition was filed, the identity of the court in which the bankruptcy petition was filed, and a listing of all State contracts against which final payment has not been made. This obligation remains in effect until final payment under this Contract. (b) Termination. This contract is voidable and subject to immediate termination by the State upon the contractor's insolvency, including the filing of proceedings in bankruptcy. [07-7A005-1]

CHOICE-OF-LAW (JAN 2006)

The Agreement, any dispute, claim, or controversy relating to the Agreement, and all the rights and obligations of the parties shall, in all respects, be interpreted, construed, enforced and governed by and under the laws of the State of South Carolina, except its choice of law rules. As used in this paragraph, the term "Agreement" means any transaction or agreement arising out of, relating to, or contemplated by the solicitation. [07-7A010-1]

CONTRACT DOCUMENTS and ORDER OF PRECEDENCE (JAN 2006)

(a) Any contract resulting from this solicitation shall consist of the following documents: (1) a Record of Negotiations, if any, executed by you and the Procurement Officer, (2) documentation regarding the clarification of an offer [e.g., 11-35-1520(8) or 11-35-1530(6)], if applicable, (3) the solicitation, as amended, (4) modifications, if any, to your offer, if accepted by the Procurement Officer, (5) your offer, (6) any statement reflecting the state's final acceptance (a/k/a "award"), and (7) purchase orders. These documents shall be read to be consistent and complimentary. Any conflict among these documents shall be resolved by giving priority to these documents in the order listed above. (b) The terms and conditions of documents (1) through (6) above shall apply notwithstanding any additional or different terms and conditions in either (i) a purchase order or other instrument submitted by the State or (ii) any invoice or other document submitted by Contractor. Except as otherwise allowed herein, the terms and conditions of all such documents shall be void and of no effect. (c) No contract, license, or other agreement containing contractual terms and conditions will be signed by any Using Governmental Unit. Any document signed or otherwise agreed to by persons other than the Procurement Officer shall be void and of no effect. [07-7A015-1]

DISCOUNT FOR PROMPT PAYMENT (JAN 2006)

(a) Discounts for prompt payment will not be considered in the evaluation of offers. However, any offered discount will form a part of the award, and will be taken if payment is made within the discount period indicated in the offer by the offeror. As an alternative to offering a discount for prompt payment in conjunction with the offer, offerors awarded contracts may include discounts for prompt payment on individual invoices.

(b) In connection with any discount offered for prompt payment, time shall be computed from the date of the invoice. If the Contractor has not placed a date on the invoice, the due date shall be calculated from the date the designated billing office receives a proper invoice, provided the state annotates such invoice with the date of receipt at the time of receipt. For the purpose of computing the discount earned, payment shall be considered to have been made on the date that appears on the payment check or, for an electronic funds transfer, the specified payment date. When the discount date falls on a Saturday, Sunday, or legal holiday when Federal Government offices are closed and Government business is not expected to be conducted, payment may be made on the following business day
[07-7A020-1]

DISPUTES (JAN 2006)

(1) Choice-of-Forum. All disputes, claims, or controversies relating to the Agreement shall be resolved exclusively by the

appropriate Chief Procurement Officer in accordance with Title 11, Chapter 35, Article 17 of the South Carolina Code of Laws, or in the absence of jurisdiction, only in the Court of Common Pleas for, or a federal court located in, Richland County, State of South Carolina. Contractor agrees that any act by the Government regarding the Agreement is not a waiver of either the Government's sovereign immunity or the Government's immunity under the Eleventh Amendment of the United State's Constitution. As used in this paragraph, the term "Agreement" means any transaction or agreement arising out of, relating to, or contemplated by the solicitation. (2) Service of Process. Contractor consents that any papers, notices, or process necessary or proper for the initiation or continuation of any disputes, claims, or controversies relating to the Agreement; for any court action in connection therewith; or for the entry of judgment on any award made, may be served on Contractor by certified mail (return receipt requested) addressed to Contractor at the address provided as the Notice Address on Page Two or by personal service or by any other manner that is permitted by law, in or outside South Carolina. Notice by certified mail is deemed duly given upon deposit in the United States mail. [07-7A025-1]

EQUAL OPPORTUNITY (JAN 2006)

Contractor is referred to and shall comply with all applicable provisions, if any, of Title 41, Part 60 of the Code of Federal Regulations, including but not limited to Sections 60-1.4, 60-4.2, 60-4.3, 60-250.5(a), and 60-741.5(a), which are hereby incorporated by reference. [07-7A030-1]

FALSE CLAIMS (JAN 2006)

According to the S.C. Code of Laws Section 16-13-240, "a person who by false pretense or representation obtains the signature of a person to a written instrument or obtains from another person any chattel, money, valuable security, or other property, real or personal, with intent to cheat and defraud a person of that property is guilty" of a crime. [07-7A035-1]

FIXED PRICING REQUIRED (JAN 2006)

Any pricing provided by contractor shall include all costs for performing the work associated with that price. Except as otherwise provided in this solicitation, contractor's price shall be fixed for the duration of this contract, including option terms. This clause does not prohibit contractor from offering lower pricing after award. [07-7A040-1]

NON-INDEMNIFICATION (JAN 2006)

Any term or condition is void to the extent it requires the State to indemnify anyone. [07-7A045-1]

NOTICE (JAN 2006)

(A) After award, any notices shall be in writing and shall be deemed duly given (1) upon actual delivery, if delivery is by hand, (2) upon receipt by the transmitting party of automated confirmation or answer back from the recipient's device if delivery is by telex, telegram, facsimile, or electronic mail, or (3) upon deposit into the United States mail, if postage is prepaid, a return receipt is requested, and either registered or certified mail is used. (B) Notice to contractor shall be to the address identified as the Notice Address on Page Two. Notice to the state shall be to the Procurement Officer's address on the Cover Page. Either party may designate a different address for notice by giving notice in accordance with this paragraph. [07-7A050-1]

PAYMENT and INTEREST (MAY 2011)

(a) Unless otherwise provided in this Solicitation, the State shall pay the Contractor, after the submission of proper invoices or vouchers, the prices stipulated in this contract for supplies delivered and accepted or services rendered and accepted, less any deductions provided in this contract. Unless otherwise specified herein, including the purchase order, payment shall not be made on partial deliveries accepted by the Government. (b) Unless otherwise provided herein, including the purchase order, payment will be made by check. (c) Notwithstanding any other provision, payment shall be made in accordance with S.C. Code Section 11-35-45, which provides the Contractor's exclusive means of recovering any type of interest from the Owner. Contractor waives imposition of an interest penalty unless the invoice submitted specifies that the late penalty is applicable. Except as set forth in this paragraph, the State shall not be liable for the payment of interest on any debt or claim arising out of or related to this contract for any reason. (d) Amounts due to the State shall bear interest at the rate of interest established by the South Carolina Comptroller General pursuant to Section 11-35-45 ("an amount not to exceed fifteen percent each year"), as amended. (e) Any other basis for interest, including but not limited to general (pre- and post-judgment) or specific interest statutes, including S.C. Code Ann. Section 34-31-20, are expressly waived by both parties. If a court, despite this agreement and waiver, requires that interest be paid on any debt by either party other than as provided by items (c) and (d) above, the parties further agree that the applicable interest rate for any given calendar year shall be the lowest prime rate as listed in the first edition of the Wall Street Journal published for each year, applied as simple interest without compounding. [07-7A055-2]

PUBLICITY (JAN 2006)

Contractor shall not publish any comments or quotes by State employees, or include the State in either news releases or a published list of customers, without the prior written approval of the Procurement Officer. [07-7A060-1]

PURCHASE ORDERS (JAN 2006)

Contractor shall not perform any work prior to the receipt of a purchase order from the using governmental unit. The using governmental unit shall order any supplies or services to be furnished under this contract by issuing a purchase order. Purchase orders may be used to elect any options available under this contract, e.g., quantity, item, delivery date, payment method, but are subject to all terms and conditions of this contract. Purchase orders may be electronic. No particular form is required. An order placed pursuant to the purchasing card provision qualifies as a purchase order. [07-7A065-1]

SETOFF (JAN 2006)

The state shall have all of its common law, equitable, and statutory rights of set-off. These rights shall include, but not be limited to, the State's option to withhold for the purposes of set-off any moneys due to the Contractor under this contract up to any amounts due and owing to the state with regard to this contract, any other contract with any state department or agency, including any contract for a term commencing prior to the term of this contract, plus any amounts due and owing to the state for any other reason including, without limitation, tax delinquencies, fee delinquencies or monetary penalties relative thereto. [07-7A070-1]

SURVIVAL OF OBLIGATIONS (JAN 2006)

The Parties' rights and obligations which, by their nature, would continue beyond the termination, cancellation, rejection, or expiration of this contract shall survive such termination, cancellation, rejection, or expiration, including, but not limited to, the rights and obligations created by the following clauses: Indemnification - Third Party Claims, Intellectual Property Indemnification, and any provisions regarding warranty or audit. [07-7A075-1]

TAXES (JAN 2006)

Any tax the contractor may be required to collect or pay upon the sale, use or delivery of the products shall be paid by the State, and such sums shall be due and payable to the contractor upon acceptance. Any personal property taxes levied after delivery shall be paid by the State. It shall be solely the State's obligation, after payment to contractor, to challenge the applicability of any tax by negotiation with, or action against, the taxing authority. Contractor agrees to refund any tax collected, which is subsequently determined not to be proper and for which a refund has been paid to contractor by the taxing authority. In the event that the contractor fails to pay, or delays in paying, to any taxing authorities, sums paid by the State to contractor, contractor shall be liable to the State for any loss (such as the assessment of additional interest) caused by virtue of this failure or delay. Taxes based on Contractor's net income or assets shall be the sole responsibility of the contractor. [07-7A080-1]

TERMINATION DUE TO UNAVAILABILITY OF FUNDS (JAN 2006)

Payment and performance obligations for succeeding fiscal periods shall be subject to the availability and appropriation of funds therefor. When funds are not appropriated or otherwise made available to support continuation of performance in a subsequent fiscal period, the contract shall be canceled. In the event of a cancellation pursuant to this paragraph, contractor will be reimbursed the resulting unamortized, reasonably incurred, nonrecurring costs. Contractor will not be reimbursed any costs amortized beyond the initial contract term. [07-7A085-1]

THIRD PARTY BENEFICIARY (JAN 2006)

This Contract is made solely and specifically among and for the benefit of the parties hereto, and their respective successors and assigns, and no other person will have any rights, interest, or claims hereunder or be entitled to any benefits under or on account of this Contract as a third party beneficiary or otherwise. [07-7A090-1]

WAIVER (JAN 2006)

The State does not waive any prior or subsequent breach of the terms of the Contract by making payments on the Contract, by failing to terminate the Contract for lack of performance, or by failing to strictly or promptly insist upon any term of the Contract. Only the Procurement Officer has actual authority to waive any of the State's rights under this Contract. Any waiver must be in writing. [07-7A095-1]

VII. TERMS AND CONDITIONS -- B. SPECIAL

CHANGES (JAN 2006)

(1) Contract Modification. By a written order, at any time, and without notice to any surety, the Procurement Officer may, subject to all appropriate adjustments, make changes within the general scope of this contract in any one or more of the following:

(a) drawings, designs, or specifications, if the supplies to be furnished are to be specially manufactured for the [State] in accordance therewith;
(b) method of shipment or packing;
(c) place of delivery;
(d) description of services to be performed;
(e) time of performance (i.e., hours of the day, days of the week, etc.); or,
(f) place of performance of the services. Subparagraphs (a) to (c) apply only if supplies are furnished under this contract. Subparagraphs (d) to (f) apply only if services are performed under this contract.

(2) Adjustments of Price or Time for Performance. If any such change increases or decreases the contractor's cost of, or the time required for, performance of any part of the work under this contract, whether or not changed by the order, an adjustment shall be made in the contract price, the delivery schedule, or both, and the contract modified in writing accordingly. Any adjustment in contract price made pursuant to this clause shall be determined in accordance with the Price Adjustment Clause of this contract. Failure of the parties to agree to an adjustment shall not excuse the contractor from proceeding with the contract as changed, provided that the State promptly and duly make such provisional adjustments in payment or time for performance as may be reasonable. By proceeding with the work, the contractor shall not be deemed to have prejudiced any claim for additional compensation, or an extension of time for completion.
(3) Time Period for Claim. Within 30 days after receipt of a written contract modification under Paragraph (1) of this clause, unless such period is extended by the Procurement Officer in writing, the contractor shall file notice of intent to assert a claim for an adjustment. Later notification shall not bar the contractor's claim unless the State is prejudiced by the delay in notification.
(4) Claim Barred After Final Payment. No claim by the contractor for an adjustment hereunder shall be allowed if notice is not given prior to final payment under this contract.
[07-7B025-1]

COMPLIANCE WITH LAWS (JAN 2006)

During the term of the contract, contractor shall comply with all applicable provisions of laws, codes, ordinances, rules, regulations, and tariffs. [07-7B035-1]

CONTRACTOR PERSONNEL (JAN 2006)

The Contractor shall enforce strict discipline and good order among the Contractor's employees and other persons carrying out the Contract. The Contractor shall not permit employment of unfit persons or persons not skilled in tasks assigned to them. [07-7B060-1]

CONTRACTOR'S OBLIGATION -- GENERAL (JAN 2006)

The contractor shall provide and pay for all materials, tools, equipment, labor and professional and non-professional services, and shall perform all other acts and supply all other things necessary, to fully and properly perform and complete the work. The contractor must act as the prime contractor and assume full responsibility for any subcontractor's performance. The contractor will be considered the sole point of contact with regard to all situations, including payment of all charges and the meeting of all other requirements. [07-7B065-1]

DEFAULT (JAN 2006)

(a) (1) The State may, subject to paragraphs (c) and (d) of this clause, by written notice of default to the Contractor, terminate this contract in whole or in part if the Contractor fails to:

(i) Deliver the supplies or to perform the services within the time specified in this contract or any extension;

(ii) Make progress, so as to endanger performance of this contract (but see paragraph (a)(2) of this clause); or

(iii) Perform any of the other material provisions of this contract (but see paragraph (a)(2) of this clause).

(2) The State's right to terminate this contract under subdivisions (a)(1)(ii) and (1)(iii) of this clause, may be exercised if the Contractor does not cure such failure within 10 days (or more if authorized in writing by the Procurement Officer) after receipt of the notice from the Procurement Officer specifying the failure.

(b) If the State terminates this contract in whole or in part, it may acquire, under the terms and in the manner the Procurement Officer considers appropriate, supplies or services similar to those terminated, and the Contractor will be liable to the State for any excess costs for those supplies or services. However, the Contractor shall continue the work not terminated.

(c) Except for defaults of subcontractors at any tier, the Contractor shall not be liable for any excess costs if the failure to perform the contract arises from causes beyond the control and without the fault or negligence of the Contractor. Examples of such causes include (1) acts of God or of the public enemy, (2) acts of the State in either its sovereign or contractual capacity, (3) fires, (4) floods, (5) epidemics, (6) quarantine restrictions, (7) strikes, (8) freight embargoes, and (9) unusually severe weather. In each instance the failure to perform must be beyond the control and without the fault or negligence of the Contractor.

(d) If the failure to perform is caused by the default of a subcontractor at any tier, and if the cause of the default is beyond the control of both the Contractor and subcontractor, and without the fault or negligence of either, the Contractor shall not be liable for any excess costs for failure to perform, unless the subcontracted supplies or services were obtainable from other sources in sufficient time for the Contractor to meet the required delivery schedule.

(e) If this contract is terminated for default, the State may require the Contractor to transfer title and deliver to the State, as directed by the Procurement Officer, any (1) completed supplies, and (2) partially completed supplies and materials, parts, tools, dies, jigs, fixtures, plans, drawings, information, and contract rights (collectively referred to as "manufacturing materials" in this clause) that the Contractor has specifically produced or acquired for the terminated portion of this contract. Upon direction of the Procurement Officer, the Contractor shall also protect and preserve property in its possession in which the State has an interest.

(f) The State shall pay contract price for completed supplies delivered and accepted. The Contractor and Procurement Officer shall agree on the amount of payment for manufacturing materials delivered and accepted and for the protection and preservation of the property; if the parties fail to agree, the Procurement Officer shall set an amount subject to the Contractor's rights under the Disputes clause. Failure to agree will be a dispute under the Disputes clause. The State may withhold from these amounts any sum the Procurement Officer determines to be necessary to protect the State against loss because of outstanding liens or claims of former lien holders.

(g) If, after termination, it is determined that the Contractor was not in default, or that the default was excusable, the rights and obligations of the parties shall, if the contract contains a clause providing for termination for convenience of the State, be the same as if the termination had been issued for the convenience of the State. If, in the foregoing circumstances, this contract does not contain a clause providing for termination for convenience of the State, the contract shall be adjusted to compensate for such termination and the contract modified accordingly subject to the contractor's rights under the Disputes clause.

(h) The rights and remedies of the State in this clause are in addition to any other rights and remedies provided by law or under this contract.

[07-7B075-1]

ILLEGAL IMMIGRATION (NOV. 2008)

(An overview is available at www.procurement.sc.gov) By signing your offer, you certify that you will comply with the applicable requirements of Title 8, Chapter 14 of the South Carolina Code of Laws and agree to provide to the State upon request any documentation required to establish either: (a) that Title 8, Chapter 14 is inapplicable to you and your subcontractors or sub-subcontractors; or (b) that you and your subcontractors or sub-subcontractors are in compliance with Title 8, Chapter 14. Pursuant to Section 8-14-60, "A person who knowingly makes or files any false, fictitious, or fraudulent document, statement, or report pursuant to this chapter is guilty of a felony, and, upon conviction, must be fined within the discretion of the court or imprisoned for not more than five years, or both." You agree to include in any contracts with your subcontractors language requiring your subcontractors to (a) comply with the applicable requirements of Title 8, Chapter 14, and (b) include in their contracts with the sub-subcontractors language requiring the sub-subcontractors to comply with the applicable requirements of Title 8, Chapter 14. [07-7B097-1]

LICENSES AND PERMITS (JAN 2006)

During the term of the contract, the Contractor shall be responsible for obtaining, and maintaining in good standing, all licenses (including professional licenses, if any), permits, inspections and related fees for each or any such licenses, permits and /or inspections required by the State, county, city or other government entity or unit to accomplish the work specified in this solicitation and the contract. [07-7B115-1]

PRICE ADJUSTMENTS (JAN 2006)

(1) Method of Adjustment. Any adjustment in the contract price made pursuant to a clause in this contract shall be consistent with this Contract and shall be arrived at through whichever one of the following ways is the most valid approximation of the actual cost to the Contractor (including profit, if otherwise allowed):
(a) by agreement on a fixed price adjustment before commencement of the pertinent performance or as soon thereafter as practicable;
(b) by unit prices specified in the Contract or subsequently agreed upon;
(c) by the costs attributable to the event or situation covered by the relevant clause, including profit if otherwise allowed, all as specified in the Contract; or subsequently agreed upon;
(d) in such other manner as the parties may mutually agree; or,
(e) in the absence of agreement by the parties, through a unilateral initial written determination by the Procurement Officer of the costs attributable to the event or situation covered by the clause, including profit if otherwise allowed, all as computed by the Procurement Officer in accordance with generally accepted accounting principles, subject to the provisions of Title 11, Chapter 35, Article 17 of the S.C. Code of Laws.
(2) Submission of Price or Cost Data. Upon request of the Procurement Officer, the contractor shall provide reasonably available factual information to substantiate that the price or cost offered, for any price adjustments is reasonable, consistent with the provisions of Section 11-35-1830.
[07-7B160-1]

PRICING DATA -- AUDIT -- INSPECTION (JAN 2006)

[Clause Included Pursuant to Section 11-35-1830, - 2210, & -2220] (a) Cost or Pricing Data. Upon Procurement Officer's request, you shall submit cost or pricing data, as defined by 48 C.F.R. Section 2.101 (2004), prior to either (1) any award to contractor pursuant to 11-35-1530 or 11-35-1560, if the total contract price exceeds $500,000, or (2) execution of a change order or contract modification with contractor which exceeds $100,000. Your price, including profit or fee, shall be adjusted to exclude any significant sums by which the state finds that such price was increased because you furnished cost or pricing data that was inaccurate, incomplete, or not current as of the date agreed upon between parties. (b) Records Retention. You shall maintain your records for three years from the date of final payment, or longer if requested by the chief Procurement Officer. The state may audit your records at reasonable times and places. As used in this subparagraph (b), the term "records" means any books or records that relate to cost or pricing data submitted pursuant to this clause. In addition to the obligation stated in this subparagraph (b), you shall retain all records and allow any audits provided for by 11-35-2220(2). (c) Inspection. At reasonable times, the state may inspect any part of your place of business which is related to performance of the work. (d) Instructions Certification. When you submit data pursuant to subparagraph (a), you shall (1) do so in accordance with the instructions appearing in Table 15-2 of 48 C.F.R. Section 15.408 (2004) (adapted as necessary for the state context), and (2) submit a Certificate of Current Cost or Pricing Data, as prescribed by 48 CFR Section 15.406-2(a) (adapted as necessary for the state context). (e) Subcontracts. You shall include the above text of this clause in all of your subcontracts. (f) Nothing in this clause limits any other rights of the state. [07-7B185-1]

RELATIONSHIP OF THE PARTIES (JAN 2006)

Neither party is an employee, agent, partner, or joint venturer of the other. Neither party has the right or ability to bind the other to any agreement with a third party or to incur any obligation or liability on behalf of the other party. [07-7B205-1]

TERM OF CONTRACT -- EFFECTIVE DATE / INITIAL CONTRACT PERIOD (JAN 2006)

The effective date of this contract is the first day of the Maximum Contract Period as specified on the final statement of award. The initial term of this agreement is 1years, 0months, 0days from the effective date. Regardless, this contract expires no later than the last date stated on the final statement of award. [07-7B240-1]

TERM OF CONTRACT -- OPTION TO RENEW (JAN 2006)

At the end of the initial term, and at the end of each renewal term, this contract shall automatically renew for a period of **1** year(s), **0** month(s), and **0** day(s), unless contractor receives notice that the state elects not to renew the contract at least thirty (30) days prior to the date of renewal. Regardless, this contract expires no later than the last date stated on the final statement of award. [07-7B245-1]

TERM OF CONTRACT -- TERMINATION BY CONTRACTOR (JAN 2006)

Contractor may terminate this contract at the end of the initial term, or any renewal term, by providing the Procurement Officer notice of its election to terminate under this clause at least **090** days prior to the expiration of the then current term. [07-7B250-1]

TERMINATION FOR CONVENIENCE (JAN 2006)

(1) Termination. The Procurement Officer may terminate this contract in whole or in part, for the convenience of the State. The Procurement Officer shall give written notice of the termination to the contractor specifying the part of the contract terminated and when termination becomes effective.
(2) Contractor's Obligations. The contractor shall incur no further obligations in connection with the terminated work and on the date set in the notice of termination the contractor will stop work to the extent specified. The contractor shall also terminate outstanding orders and subcontracts as they relate to the terminated work. The contractor shall settle the liabilities and claims arising out of the termination of subcontracts and orders connected with the terminated work. The Procurement Officer may direct the contractor to assign the contractor's right, title, and interest under terminated orders or subcontracts to the State. The contractor must still complete the work not terminated by the notice of termination and may incur obligations as are necessary to do so.
(3) Right to Supplies. The Procurement Officer may require the contractor to transfer title and deliver to the State in the manner and to the extent directed by the Procurement Officer: (a) any completed supplies; and (b) such partially completed supplies and materials, parts, tools, dies, jigs, fixtures, plans, drawings, information, and contract rights (hereinafter called "manufacturing material") as the contractor has specifically produced or specially acquired for the performance of the terminated part of this contract. The contractor shall, upon direction of the Procurement Officer, protect and preserve property in the possession of the contractor in which the State has an interest. If the Procurement Officer does not exercise this right, the contractor shall use best efforts to sell such supplies and manufacturing materials in a accordance with the standards of Uniform Commercial Code Section 2-706. Utilization of this Section in no way implies that the State has breached the contract by exercise of the Termination for Convenience Clause.
(4) Compensation. (a) The contractor shall submit a termination claim specifying the amounts due because of the termination for convenience together with cost or pricing data required by Section 11-35-1830 bearing on such claim. If the contractor fails to file a termination claim within one year from the effective date of termination, the Procurement Officer may pay the contractor, if at all, an amount set in accordance with Subparagraph (c) of this Paragraph.
(b) The Procurement Officer and the contractor may agree to a settlement and that the settlement does not exceed the total contract price plus settlement costs reduced by payments previously made by the State, the proceeds of any sales of supplies and manufacturing materials under Paragraph (3) of this clause, and the contract price of the work not terminated;
(c) Absent complete agreement under Subparagraph (b) of this Paragraph, the Procurement Officer shall pay the contractor the following amounts, provided payments agreed to under Subparagraph (b) shall not duplicate payments under this Subparagraph:
(i) contract prices for supplies or services accepted under the contract;
(ii) costs reasonably incurred in performing the terminated portion of the work less amounts paid or to be paid for accepted supplies or services;
(iii) reasonable costs of settling and paying claims arising out of the termination of subcontracts or orders pursuant to Paragraph (2) of this clause. These costs must not include costs paid in accordance with Subparagraph (c)(ii) of this paragraph;
(iv) any other reasonable costs that have resulted from the termination. The total sum to be paid the contractor under this Subparagraph shall not exceed the total contract price plus the reasonable settlement costs of the contractor reduced by the amount of payments otherwise made, the proceeds of any sales of supplies and manufacturing materials under Subparagraph (b) of this Paragraph, and the contract price of work not terminated.
(d) Contractor must demonstrate any costs claimed, agreed to, or established under Subparagraphs (b) and (c) of this Paragraph using its standard record keeping system, provided such system is consistent with any applicable Generally Accepted Accounting Principles.

(5) Contractor's failure to include an appropriate termination for convenience clause in any subcontract shall not (i) affect the state's right to require the termination of a subcontract, or (ii) increase the obligation of the state beyond what it would have been if the subcontract had contained an appropriate clause.[07-7B265-1]

VIII. BIDDING SCHEDULE / PRICE-BUSINESS PROPOSAL

PRICE PROPOSAL (JAN 2006)

Notwithstanding any other instructions herein, you shall submit the following price information as a separate document:

- **Provide the cost structure for this engagement. Break out the cost for each year of the engagement.**

[08-8015-1]

IX. ATTACHMENTS TO SOLICITATION

NONRESIDENT TAXPAYER REGISTRATION AFFIDAVIT INCOME TAX WITHHOLDING

IMPORTANT TAX NOTICE - NONRESIDENTS ONLY

Withholding Requirements for Payments to Nonresidents: Section 12-8-550 of the South Carolina Code of Laws requires persons hiring or contracting with a nonresident conducting a business or performing personal services of a temporary nature within South Carolina to withhold 2% of each payment made to the nonresident. The withholding requirement does not apply to (1) payments on purchase orders for tangible personal property when the payments are not accompanied by services to be performed in South Carolina, (2) nonresidents who are not conducting business in South Carolina, (3) nonresidents for contracts that do not exceed $10,000 in a calendar year, or (4) payments to a nonresident who (a) registers with either the S.C. Department of Revenue or the S.C. Secretary of State and (b) submits a Nonresident Taxpayer Registration Affidavit - Income Tax Withholding, Form I-312 to the person letting the contract.

The withholding requirement applies to every governmental entity that uses a contract ("Using Entity"). Nonresidents should submit a separate copy of the Nonresident Taxpayer Registration Affidavit - Income Tax Withholding, Form I-312 to every Using Entity that makes payment to the nonresident pursuant to this solicitation. Once submitted, an affidavit is valid for all contracts between the nonresident and the Using Entity, unless the Using Entity receives notice from the Department of Revenue that the exemption from withholding has been revoked.

Section 12-8-540 requires persons making payment to a nonresident taxpayer of rentals or royalties at a rate of $1,200.00 or more a year for the use of or for the privilege of using property in South Carolina to withhold 7% of the total of each payment made to a nonresident taxpayer who is not a corporation and 5% if the payment is made to a corporation. Contact the Department of Revenue for any applicable exceptions.

For information about other withholding requirements (e.g., employee withholding), contact the Withholding Section at the South Carolina Department of Revenue at 803-898-5383 or visit the Department's website at: **www.sctax.org**

This notice is for informational purposes only. This agency does not administer and has no authority over tax issues. All registration questions should be directed to the License and Registration Section at 803-898-5872 or to the South Carolina Department of Revenue, Registration Unit, Columbia, S.C. 29214-0140. All withholding questions should be directed to the Withholding Section at 803-896-1420.

PLEASE SEE THE "NONRESIDENT TAXPAYER REGISTRATION AFFIDAVIT INCOME TAX WITHHOLDING" FORM (FORM NUMBER I-312) LOCATED AT:
http://www.sctax.org/Forms+and+Instructions/withholding/default.htm

[09-9005-1]

OFFEROR'S CHECKLIST (JUN 2007)

OFFEROR'S CHECKLIST -- AVOID COMMON BID/PROPOSAL MISTAKES

Review this checklist prior to submitting your bid/proposal.
If you fail to follow this checklist, you risk having your bid/proposal rejected.

- Do not include any of your standard contract forms!

- Unless expressly required, do not include any additional boilerplate contract clauses.

- Reread your entire bid/proposal to make sure your bid/proposal does not take exception to any of the state's mandatory requirements.

- Make sure you have properly marked all protected, confidential, or trade secret information in accordance with the instructions entitled: SUBMITTING CONFIDENTIAL INFORMATION. **DO NOT mark your entire bid/proposal as confidential, trade secret, or protected! Do not include a legend on the cover stating that your entire response is not to be released!**

- Have you properly acknowledged all amendments? Instructions regarding how to acknowledge an amendment should appear in all amendments issued.

- Make sure your bid/proposal includes a copy of the solicitation cover page. Make sure the cover page is signed by a person that is authorized to contractually bind your business.

- Make sure your Bid/proposal includes the number of copies requested.

- Check to ensure your Bid/proposal includes everything requested!

- If you have concerns about the solicitation, do not raise those concerns in your response! **After opening, it is too late! If this solicitation includes a pre-bid/proposal conference or a question & answer period, raise your questions as a part of that process!** Please see instructions under the heading "submission of questions" and any provisions regarding pre-bid/proposal conferences.

[09-9010-1]

Code of Ethics

I. **Purpose.** The investment and management of all assets of the South Carolina Retirement Systems Group Trust ("Retirement Systems") demands the highest degree of confidence from the co-trustees, participants, beneficiaries and other stakeholders of the Retirement Systems trust. This Code of Ethics provides guidance as to the values and standards by which South Carolina Retirement System Investment Commission ("RSIC") Commissioners are expected to abide.

II. **Responsibilities.** RSIC Commissioners are expected to:

(A) Be familiar and comply with all applicable laws, regulations and policies;
(B) Conduct themselves with the utmost integrity, competence, professionalism and ethical behavior;
(C) Demonstrate decorum and respect in dealings with fellow Commissioners, RSIC Staff, service providers, and stakeholder groups;
(D) Communicate in a respectful, honest, and constructive manner at all times;
(E) Promote cohesion among the Commission, RSIC Staff, and service providers for the benefit of the Retirement Systems and its participants and beneficiaries;
(F) Respect and maintain the confidentiality of RSIC information and refrain from disclosing to third parties any non-public RSIC information, including, but not limited to, non-public information regarding investments and operations; and
(G) Understand the obligations they have to the Retirement System and its members and beneficiaries, including those imposed by law, policy, or other applicable standard.

III. **Applicable Laws and Policies**. In fulfilling their duties and responsibilities, Commissioners must comply with all applicable laws and policies, including but not limited to:

(A) The South Carolina Ethics Act (S.C. Code of Laws Ann. §8-13-100 *et seq.*);
(B) Standards of Conduct (as codified at S.C. Code of Laws Ann. §9-16-360);
(C) Sourcing and Conflict Disclosure Form;
(D) Governance Policy Manual;
(E) Travel, and other policies and laws applicable to RSIC.

By signing below, I confirm that I have read and will comply with this Code of Ethics and all applicable laws and policies, including those listed in Section III above.

Name (Please print)	Signature	Date

October 2, 2014

MEMORANDUM

TO: The South Carolina Retirement System Investment Commission

FROM: Geoffrey Berg, CFA, Managing Director

RE: Acquisition of Frank Russell Company ("Russell") by London Stock Exchange Group plc

Overview:

On June 26, 2014, London Stock Exchange Group plc ("LSEG") announced its intention to acquire Frank Russell Company ("Russell") from Northwestern Mutual and other minority shareholders for $2.7 billion. The transaction is expected to close near the end of the calendar year.

On August 12, 2014, Russell sent a letter to clients requesting consent to the assignment of their contract. While the letter indicates that a failure to return the consent form by September 29, 2014 will be treated as a consent, we have notified Russell that we require an extension in order to let the Commission determine whether or not to consent.

Additional Information:

The Commission employs Russell's services through a business unit, Russell Implementation Services ("RIS"). RIS assists with the management of the Beta Overlay, as well as with Transition Management services. Staff performed on-site due diligence with Russell on January 27, 2014.

Russell's Transition Management services recently scored very highly in another survey (http://www.ai-cio.com/2014_Transition_Management_Survey.aspx). Although the expected funding of several global equity mandates will significantly reduce the overlay notional exposure, the overlay remains an important implementation tool with which the CIO and Staff manage the Plan exposures.

Russell, founded in 1936, is a Seattle-based global investment management firm with $297 billion assets under management and $2.4 trillion under advisement through its 20 offices worldwide.

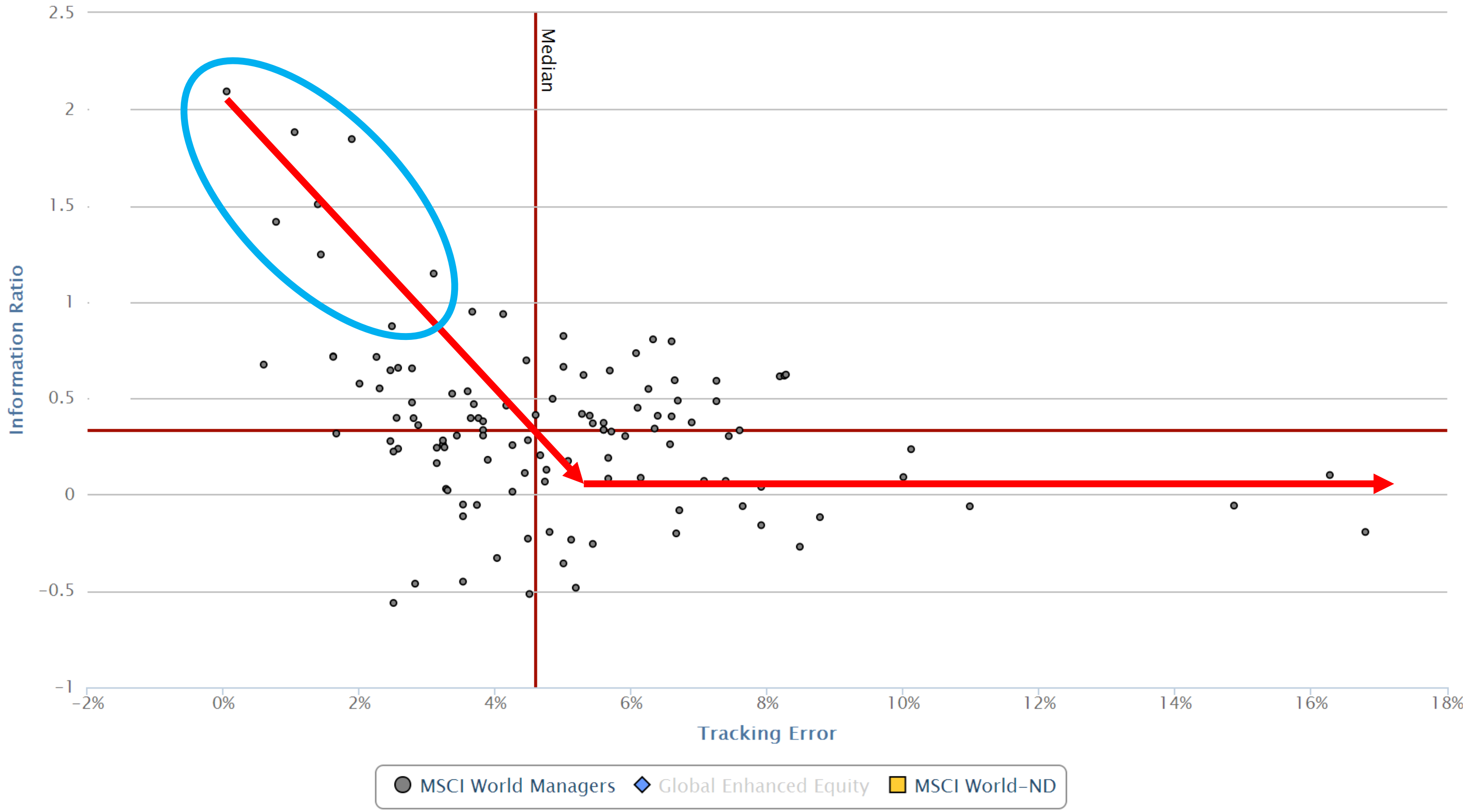
Recommendation:

For these reasons, Staff recommends the Commission consent to the assignment of the investment management agreement.

Global Public Equity Recommendations

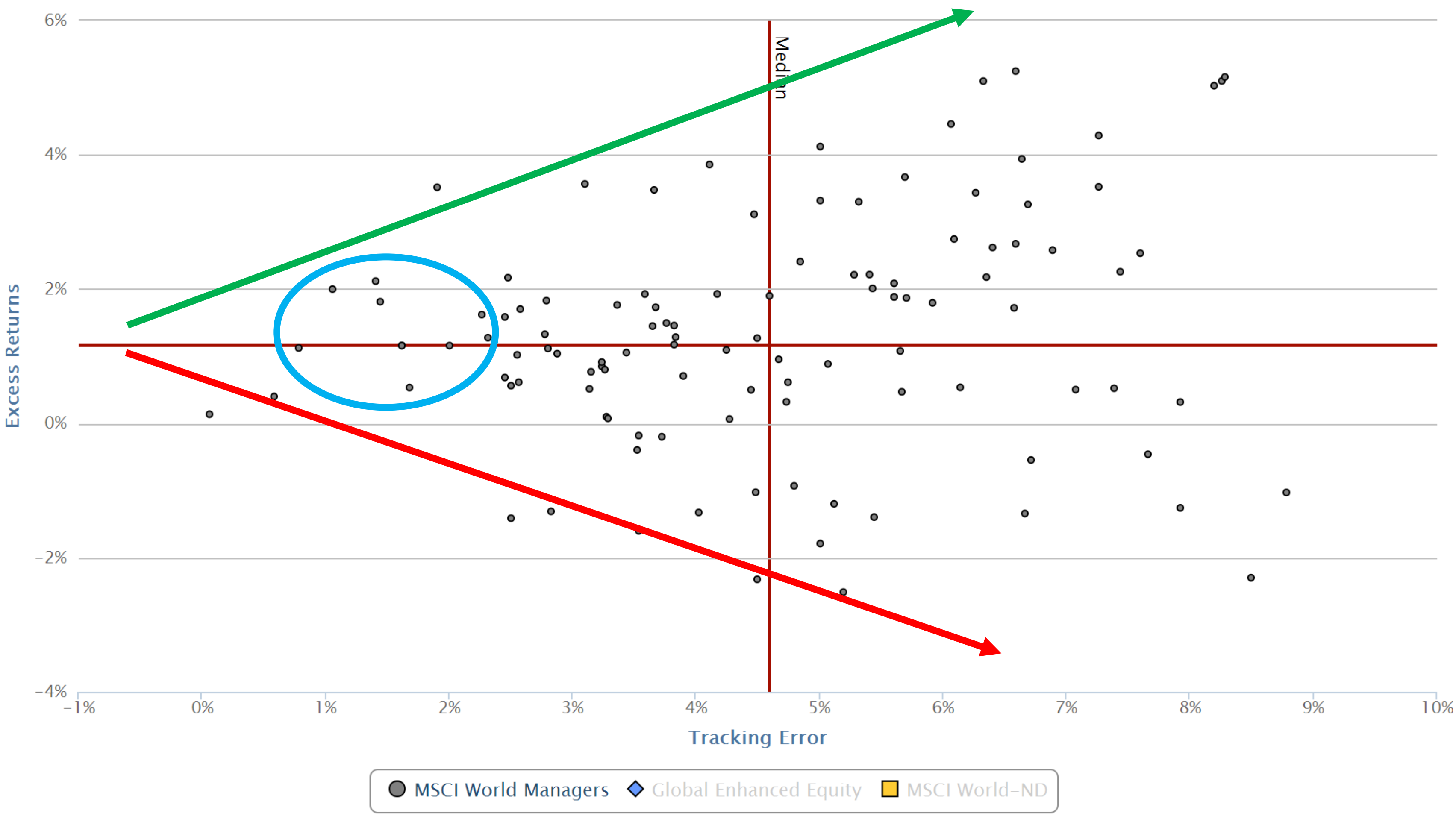
Bryan Moore, CFA
Senior Investment Officer

Consistency over Volatility



SC Retirement System Investment Commission

Consistency over Volatility



Recommendations

Strategy	Recommended Investment
AQR Global Enhanced	Up to 4% of Plan Assets
DE Shaw World Enhanced Plus	Up to 4% of Plan Assets
INTECH Global Enhanced Plus	Up to 4% of Plan Assets

Search Goals

- Complementary to existing portfolio
- Avoid stacking of exposures
- Improve Information Ratio of the equity portfolio
- Negotiate fees
- Appropriate sizing

Complement to Existing Portfolio

Correlations of Excess Returns	RSIC SMID ER	RSIC EM ER	Proposed Enh. ER
RSIC SMID ER	1.00		
RSIC EM ER	0.04	1.00	
Proposed Enh. ER	-0.14	-0.14	1.00

Data: July 2005 – June 2014

RSIC

SC Retirement System Investment Commission

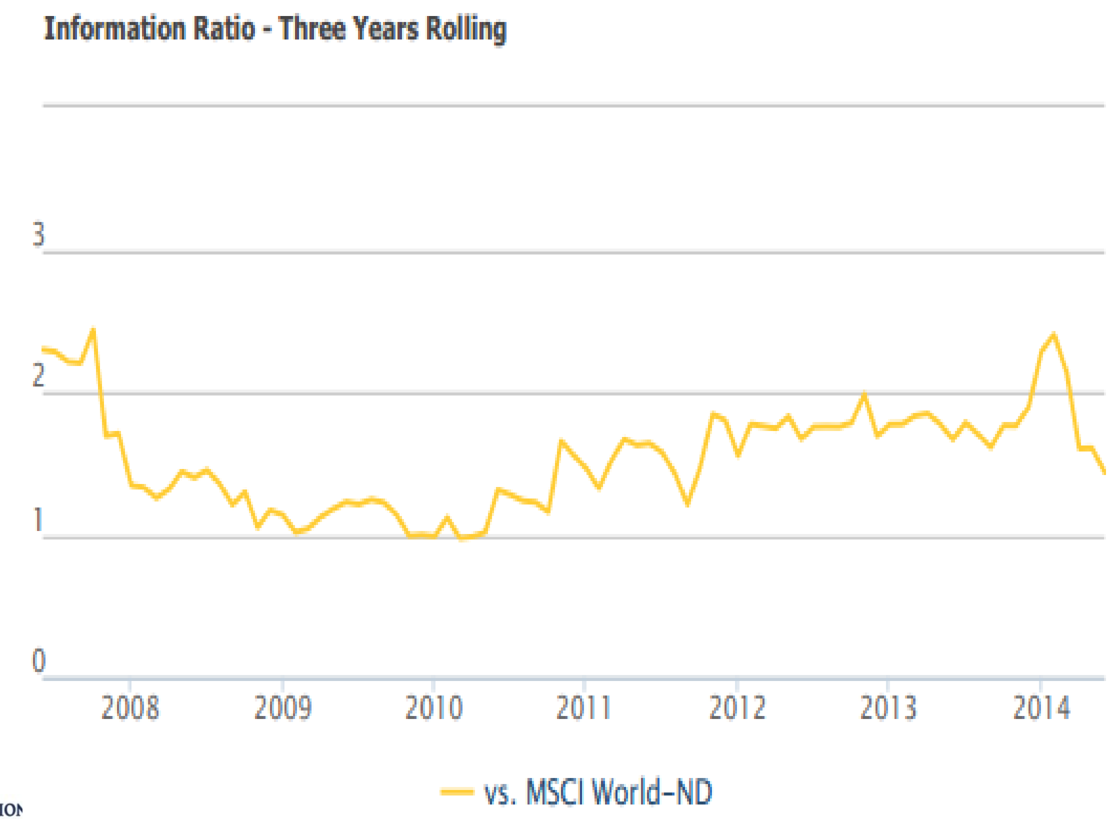
Avoid Stacking of Exposures

Correlations of Excess Returns	AQR ER	Intech ER	DE Shaw ER
AQR ER	1.00		
INTECH ER	0.14	1.00	
DE Shaw ER	0.11	0.00	1.00

Data: February 2009 – June 2014

Improve Information Ratio

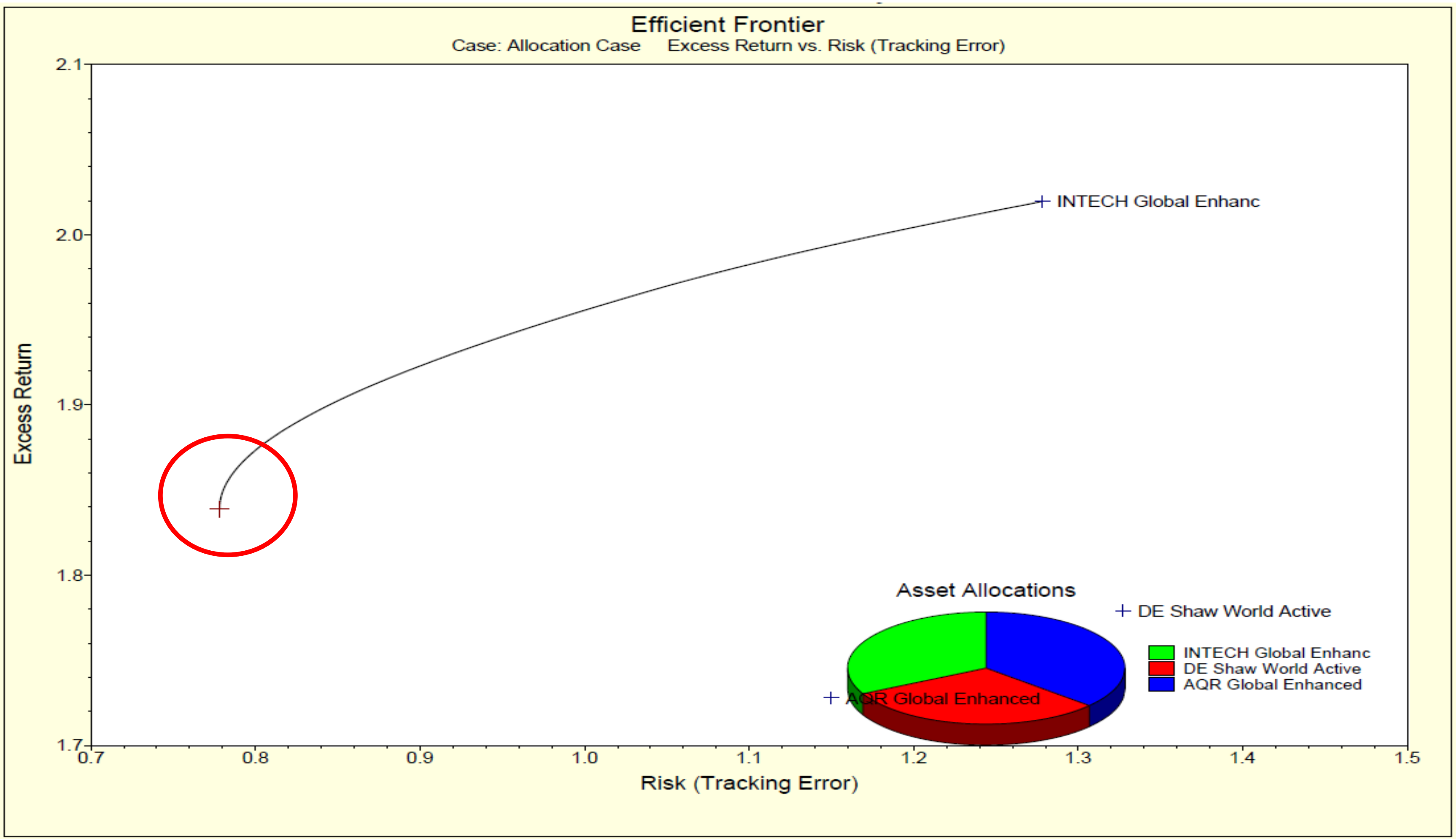
	Excess Return	Tracking Error	Information Ratio
RSIC Current Mix	1.7%	1.1%	1.5
RSIC Proposed Mix	1.9%	1.0%	1.9



Negotiate Fees

Manager	Initial Fee	Negotiated Fee	Annual Savings @ $700m
AQR	0.32%	0.24%	$560,000
INTECH	0.27%	0.21%	$420,000
DE Shaw	0.41%	0.37%	$280,000
Total			**$1,260,000**

Appropriate Sizing



AQR Global Enhanced

- Two-step optimization process
- Factor-based, with incremental improvements
- Alternatives platform supports research, trading, and risk management resources

DE Shaw World Enhanced Plus

- Best in class optimization
- Low correlation to factors and other managers
- Alternatives platform supports research, trading, and risk management resources

INTECH Global Enhanced Plus

- Volatility capture strategy
- Risk management in elevated volatility
- Global implementation is compelling

Recommendations

Strategy	Recommended Investment
AQR Global Enhanced	Up to 4% of Plan Assets
DE Shaw World Enhanced Plus	Up to 4% of Plan Assets
INTECH Global Enhanced Plus	Up to 4% of Plan Assets

SC Due Diligence Team
Bryan W. Moore, CFA, Senior Investment Officer ("Investment Team")

Summary Terms Chart		
	Investment Officer Summary:	**Source Location:**
Manager Name:	AQR Capital Management, LLC	Term Sheet
Fund/Investment Name:	AQR Global Enhanced Equity	Term Sheet
Primary Custodian(s) or Safekeeping Agent(s) (together with point of contact information if other than BONY Mellon):	In-Bank, Bank of New York Mellon	Term Sheet
RSIC Investment Size & Limitations (Commitment):	Up to 4% of Total Plan Assets	Term Sheet/Fiscal Year 2013-14 SIOP: Specialty Mandates
Management Fee:	**Yes**, First \$100 million: 0.36% Next \$100 million: 0.30% Thereafter: 0.21% The management fee will be calculated quarterly in arrears at a rate of ¼ of the schedule set forth above based on the average month-end net asset value of the account within each calendar quarter (taking into account any subscriptions or redemptions, as calculated by the custodian).	Term Sheet
Performance Fees/Carried Interest:	**No**	Term Sheet
Hurdle Rate/Preferred Return:	**No**	Term Sheet
Organizational Expenses:	**No**	Term Sheet
Other Expenses/Fees:	**No**	Term Sheet
Manager Commitment:	**No**	Term Sheet
Anticipated Investment Period:	**No**	Term Sheet
Anticipated Investment/Fund Term:	One year, with four automatic one-year extensions	Term Sheet
Withdrawal Rights:	RSIC Directed	Term Sheet
Placement Agent Used in Obtaining Investment by RSIC:	**No**	Term Sheet/Placement Agent Letter

AON Hewitt

InTotal

Global Investment Management

AQR Capital Management LLC — Global Equity

Review Date	Current Rating	Previous Rating
June 2014	Buy	No Change

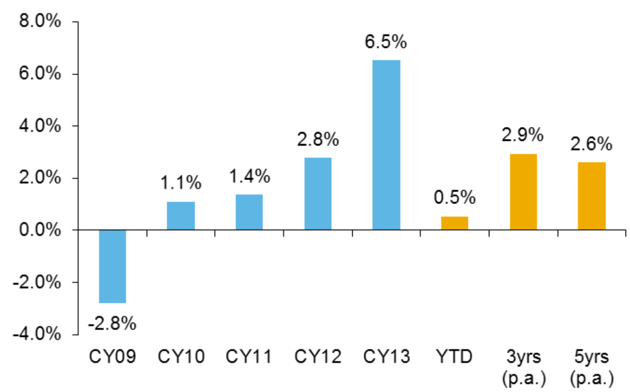
Overall Rating

We believe AQR to be a strong quantitative manager with a high-quality team and strong academic roots. The strategy's process is quantitatively applied using a disciplined multi-factor approach. We believe the level of innovation at AQR has been high in many aspects of quantitative investments, particularly with regards to risk management and implementation. While we would prefer to see more consistency in the value added by the country and currency models (significant elements in the process), we believe the models have the potential to deliver going forward and will continue to act as diversifying sources of alpha and allow for a more optimal implementation of AQR's process. We maintain our Buy rating for this strategy.

Component Ratings

	Rating	*Previous Rating*
Overall	**Buy**	*No Change*
Business	3	*No Change*
Staff	3	*No Change*
Process	3	*No Change*
Risk	3	*No Change*
ODD	Pass	*No Change*
Performance	3	*No Change*
T&C	3	*No Change*

Relative Performance to March 2014



Composite performance (USD) is gross of fees relative to MSCI All Country World Index. CY = calendar year. Source: eVestment

Firm Summary

Head Office Location	Greenwich, CT	**Parent Name**	Independently owned
Firm AUM	$105.1 billion	**Investment Staff**	116
Equity AUM	$49.1 billion	**Equity Staff**	N/A

Portfolio Strategy Characteristics

Team Location	Greenwich, CT	**Team Head**	Investment Committee
Strategy Inception	January 2004	**Strategy Size**	$6.1 billion
Number of Holdings	600 – 1,200	**Annual Turnover**	65%
Benchmark	MSCI World Index		
Performance Objective	1.5% - 3.5% outperformance over a full market cycle		
Risk Tolerance Target	3.0% - 5.0% guideline tracking error range		

Note: AUM and Staff numbers as at March 2014

Investment Manager Evaluation

Rating Sheet		
Factor	**Rating**	**Comments**
Business	3	AQR is an institutionally-focused, stable organization with a geographically diverse client base. The firm is independently owned and operated with 18 key professionals owning the majority of the firm (>75%), and a minority owner, Affiliated Managers Group (AMG), which has a history of being hands-off. AQR appears to operate as a meritocracy with compensation being highly performance-oriented creating a strong alignment of interest with investors.
Investment Staff	3	The quality of the AQR team is very high and retention of core professionals has been strong. The firm appears to have a good balance of being deeply rooted in academia coupled with many years of practical experience. Many of its principals have been extensively published in financial research journals. We believe the team is well-resourced.
Investment Process	3	AQR's quantitative process is driven largely by fundamental factors, most notably value and momentum. The strategy focuses on targeting risk through tracking error and allocates a portion of its risk budget to three primary models: Stock Selection, Country, and Currency. While the Stock Selection model is implemented through equity securities, the Country and Currency models are implemented through derivatives (futures, swaps, and forwards). The process is quantitatively applied, and the proprietary optimization method is a unique element of the investment process. We find the combination of the three models appealing, although historically, the Stock Selection model has outperformed the Country and Currency models.
Risk Management	3	AQR's long history in hedge funds and multi-asset portfolios has resulted in very strong capabilities in decomposing risk and in monitoring and adjusting exposures. The firm has the requisite risk management tools which enable it to clearly understand the risks within its portfolios. The firm places great emphasis on trading, implementation research, and analysis, using automated algorithms and trading systems developed in-house to minimize execution costs. The algorithms allow the firm to perform real-time risk control and monitoring. An independent risk team also measures and monitors the fund. Investors should be cognizant of exposure to systemic quantitative factor risk.
Operational Due Diligence	Pass	Compliance systems and procedures are well-developed. AQR is of institutional caliber in its use of high-quality service providers, systems resources and capabilities, and oversight of key functions by experienced professionals. The firm's controls and procedures are well-documented and comparable to industry standards.

Rating Sheet		
Factor	**Rating**	**Comments**
Performance Analysis	3	The objective of the strategy is to outperform the benchmark while keeping the tracking error below 5%. Typically, this strategy has stayed closer to the lower end of its target tracking error. Relative performance during 2007 and 2009 was weak; however the strategy has added value over trailing three- and five-year periods and we believe the strategy has the ability to outperform going forward. We would prefer to see more consistency in the added value from the Country and Currency models, which are significant elements in the process, with historic performance predominantly being driven by stock selection.
Terms & Conditions	3	Client service has consistently been above average. Fees are relatively inexpensive when compared to a universe of institutional equity managers. AQR is also willing to negotiate performance-based fee structures.
Overall Rating	**Buy**	We believe AQR to be a strong quantitative manager with a high-quality team and strong academic roots. The strategy's process is quantitatively applied using a disciplined multi-factor approach. We believe the level of innovation at AQR has been high in many aspects of quantitative investments, particularly with regards to risk management and implementation. While we would prefer to see more consistency in the value added by the country and currency models (significant elements in the process), we believe the models have the potential to deliver going forward and will continue to act as diversifying sources of alpha and allow for a more optimal implementation of AQR's process. We maintain our Buy rating for this strategy.

Manager Profile

Overview

AQR Capital Management is an independently-owned investment management firm with its sole office in Greenwich, Connecticut. AQR was formed in January 1998 by Clifford Asness, PhD, David Kabiller, CFA, Robert Krail, and John Liew, PhD, Three of the four (Cliff Asness, Robert Krail, and John Liew) comprised the senior management of the Quantitative Research Group at Goldman Sachs Asset Management.

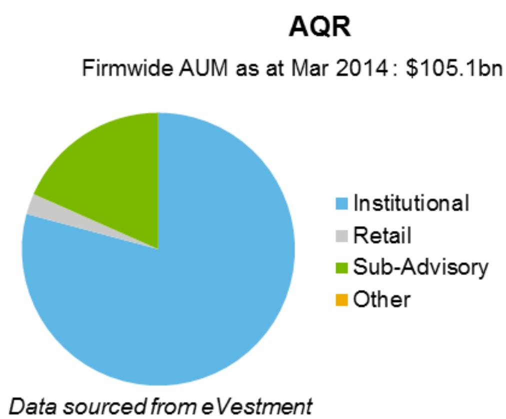
AQR started the Global Equity strategy in 2003, and since then, the firm has opened several other long-only oriented strategies, including Emerging Markets Equity in 2008, as well as Enhanced versions of certain strategies with lower tracking error targets. For clients with larger mandates, AQR offers a high degree of customization.

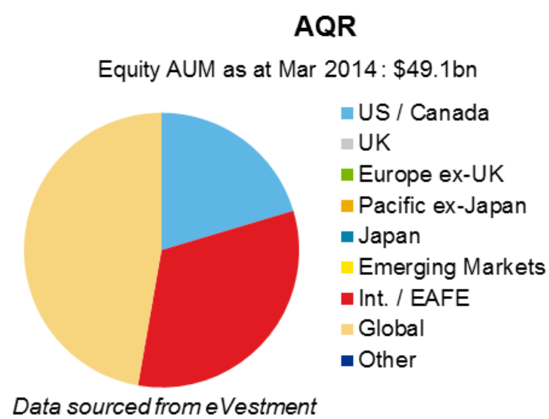
The use of quantitative modeling and modern portfolio theory is strongly embedded in the firm's culture – many of the firm's principals have been extensively published in financial research journals.

Business

- AQR is independently owned and operated. In November 2004, the principals sold a minority stake in AQR (less than 25%) to Affiliated Managers Group, at which time they signed 10-year employment contracts.
- Eighteen principals currently own the majority equity stake of the company (more than 75%) with the four founding principals owning greater than 50%. AQR remains employee-operated and maintains full independence in operations and in managing its investment process.
- AQR has a joint venture in which it owns 50% of CNH Partners. Todd Pulvino, Mark Mitchell, and Rocky Bryant (the three CNH Principals) focus entirely on the research and investment process related to fundamental arbitrage and event driven strategies for AQR. CNH Partners relies upon AQR for all of its legal, infrastructure, client service, marketing, trading, and compliance needs. All AQR/CNH strategies are marketed by and accessed exclusively through AQR.
- The firm employs over 200 people, approximately half of which are investment professionals focused on trading, risk management, research, and technology.

Client Base





AON Hewitt

- AQR currently manages $105.1 billion in assets, $49.1 of which is invested in long only equity strategies. Approximately $6.1 billion is invested in the Global Equity strategy.
- AQR relies on institutional investors and pension funds for the majority of its assets under management. While the majority of investors are located within the United States, the investor base is geographically diverse, including clients in the Europe and Australia.

Investment Staff

Key Staff	Position	Date Joined	Years of Experience
Clifford Asness, PhD	Managing and Founding Principal	1998	22
John Liew, PhD	Founding Principal, Global Asset Allocation	1998	21
Jacques Friedman	Principal, Global Stock Selection	1998	17
Lars Nielsen	Principal, Global Asset Allocation, Global Stock Selection	2000	14

- AQR's portfolio management and research teams are organized by asset classes and investment strategies rather than products. Both the Global Stock Selection (bottom-up stock selection) and Global Asset Allocation (top-down country and currency selection) teams work on the Emerging Markets Equity strategy.
- John Howard, Principal and Chief Financial Officer/Chief Operating Officer, left the firm in March 2010 to become CFO of Alliance Bernstein, returning to the same role in March 2011. Since joining the firm in 2007, Mr. Howard has overseen the firm's operational, accounting, IT, and human resource teams.
- In the fall of 2008, AQR reduced its workforce by approximately 10%, eliminating positions within the firm's operations and information technology departments in response to adverse market conditions.
- AQR has experience very low turnover at the senior level.

Investment Process

Philosophy

AQR employs a quantitative process to take advantage of value and momentum across all of its long-only equity strategies. The firm believes that both value and momentum investment strategies have a proven ability to outperform the market over differing time horizons with a significantly low correlation, thereby diversifying and reducing risk. AQR believes its active country and currency management adds a diversified source of alpha. For each strategy or mandate AQR sets a target tracking error as well as an allocation of its risk budget to its three main models: Stock Selection, Country, and Currency. While AQR is constantly researching way to enhance its models, new factors are added slowly, and only after they have been significantly and fully vetted.

Process

The Global Equity strategy employs three separate models as diversifiers and sources of alpha, the Stocks Selection, Country, and Currency models. The proprietary stock selection models evaluate the investable universe according to various value and momentum indicators in an effort to construct a portfolio with a bias towards undervalued companies with positive momentum. In addition to its core belief in value and momentum factors, AQR has also implemented complementary measures of earnings quality, management behavior, and investor sentiment, etc, in its bottom-up stock selection model. Each model accounts for numerous factors primarily relating to value and momentum characteristics. While the models look at similar factors, they have different weightings depending on the model. For instance, the developed country stock selection model incorporates several regional models, each with slight variations. Each factor creates positive or negative signals that are taken into account in the portfolio construction process.

AQR's country and currency models also apply the valuation and momentum philosophy in a broad sense. For example, the currency model includes value based models such as Purchasing Power Parity and the shape of the yield curve, while the country model applies valuation based metrics applied on a country wide perspective. Momentum related models include momentum of interest rates, currencies, and equity markets.

Secondarily, AQR may selectively implement dynamic weighting between 1) the three alpha models; and/or 2) value and momentum factors, exploiting what it terms the 'value spread,' by over/under weighting the allocation to value factors.

When constructing the portfolio, AQR first determines the equity and FX exposures inherent in the strategy's benchmark. It then invests 90% of its portfolio in the benchmark at country weights, using output form its Stock Selection model to add alpha. Next AQR uses the remaining 10% of the portfolio to take favorable positions through country stock market futures and FX forwards as indicated by the Country and Currency models. While AQR will never short a stock in its long only strategies, it does have the ability to take short positions on countries and currencies.

AQR also seeks to add value by minimizing trading costs through the use of the proprietary algorithms built into its electronic trading system. These algorithms are designed to achieve lower commission and market impact. AQR will also use depository receipts when investing in emerging markets in order to increase liquidity and transparency and lower costs. Trade execution costs are factored into AQR's optimization process.

In the final step, AQR utilizes a modified two-step optimization process. First, the optimizer is run on the combined output of the three alpha models, assuming no portfolio constraints or trading costs. This leads to an output of implied expected returns, which is then plugged back into the optimizer and processed with adjustments for portfolio constraints and trading costs. The output of this second run through the optimizer is AQR's optimal implementable portfolio.

Risk Management

Risk management is built directly into AQR's portfolio construction process with a percentage of the risk budget allocated to each of the strategy's three alpha models. Additionally, the portfolio's target tracking error is rigorously monitored.

Aaron Brown, AQR's Chief Risk Officer, heads up the firm's ten member risk committee and reports directly to Cliff Asness. The committee is comprised of principals and senior portfolio managers and focuses on all aspects of risk including market risk, credit risk, liquidity risk, funding risk, and financial risk.

This risk team has access to BARRA global models for monitoring Stock Selection, as well as internally-developed proprietary systems for monitoring the Country and Currency models. The firm also performs stress test analysis and monitor returns through a live P&L system.

Operational Due

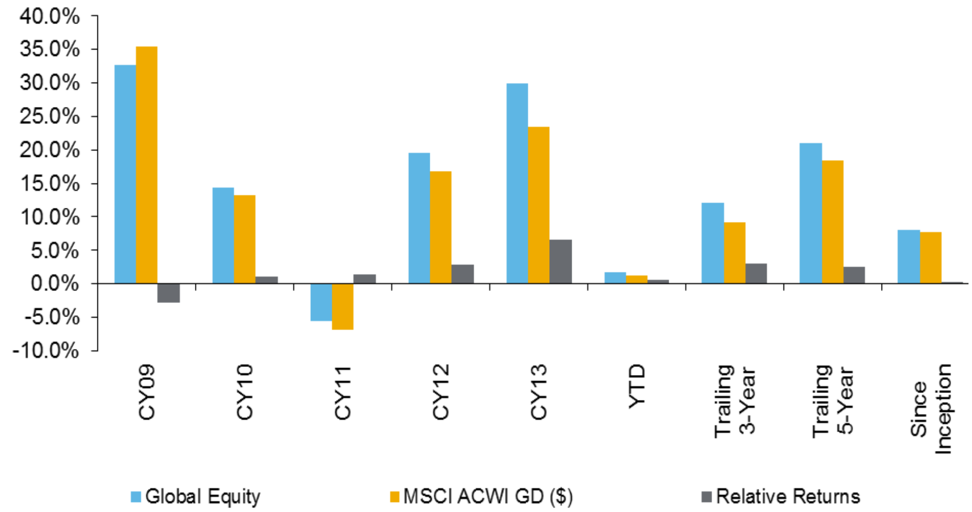
- The firm is registered with the SEC, CFTC (Commodity Futures Trading

AON Hewitt

Diligence	Commission), NFA (National Futures Association), and U.S. Department of Labor. ▪ The Board of Directors contains two independent directors. ▪ AQR has a SAS70 Type II audit conducted by PriceWaterhouseCoopers. ▪ AQR maintains a disaster recovery plan that is tested regularly. ▪ There are no current ongoing investigations or inquiries from any regulatory or legal authorities. ▪ GIPS compliance is audited by ACA Compliance Group.
Terms & Conditions	Mutual Fund ($5/$10 million minimum): ▪ Global Equity I (AQGIX): 94 bps ▪ Global Equity Y (AQGYX): 50 bps Commingled Fund ($5 million minimum): ▪ First $50 million: 70 bps ▪ Next $50 million: 60 bps ▪ Balance: 55 bps Separate Account ($100 million minimum): ▪ First $100 million: 65 bps ▪ Balance: 60 bps

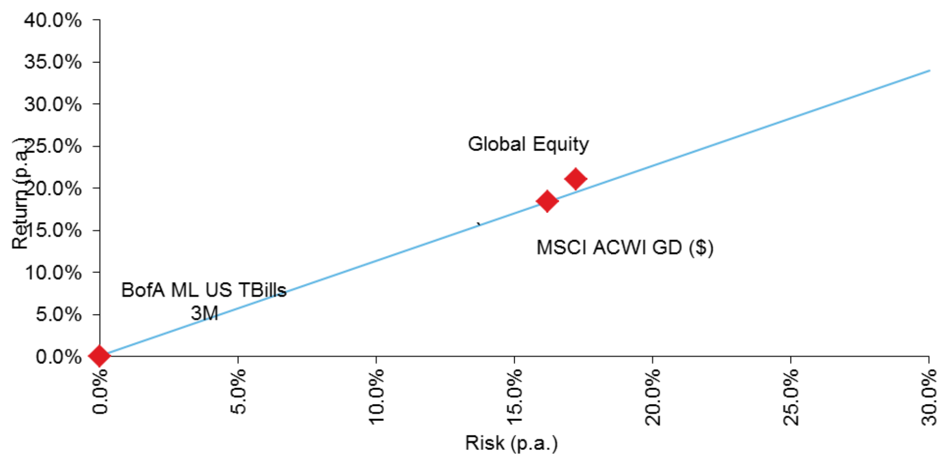
Performance and Risk Metrics

Historic Performance (Inception: January 2004)



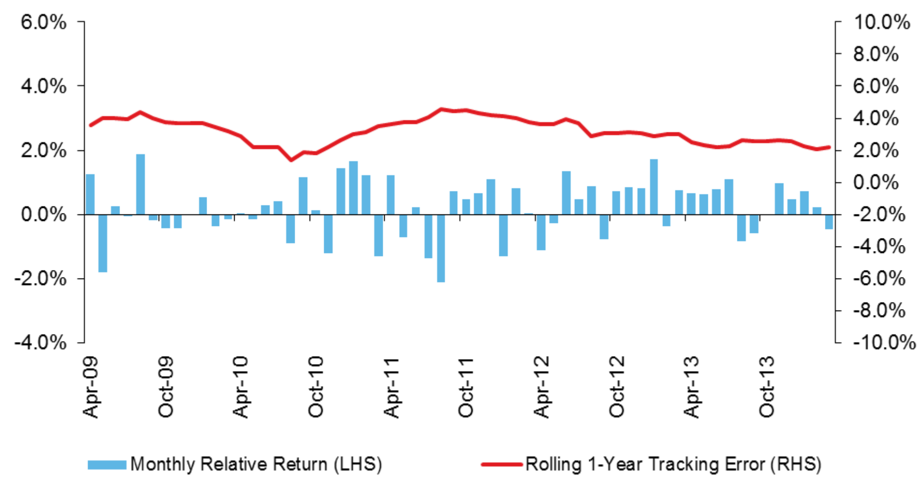
Risk – Return

5 Years Ending 3/31/2014

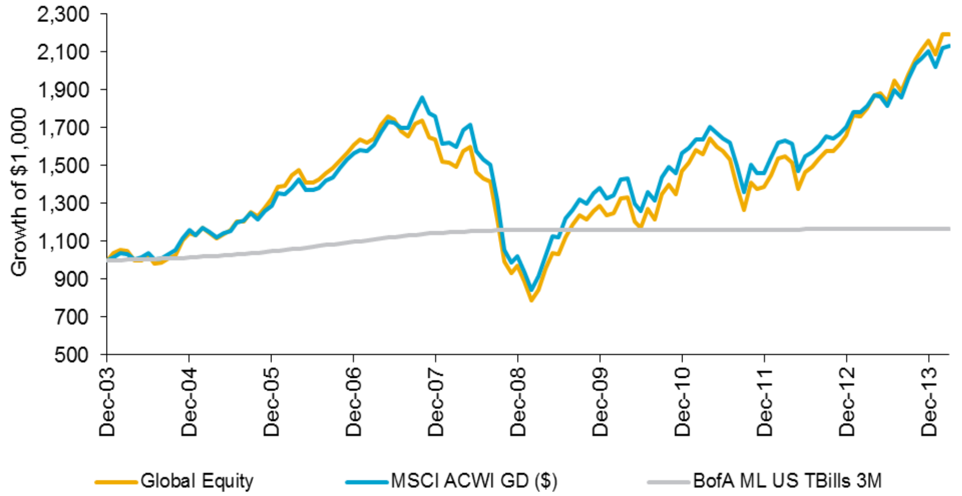


Monthly Return and 12-Month Rolling Tracking Error

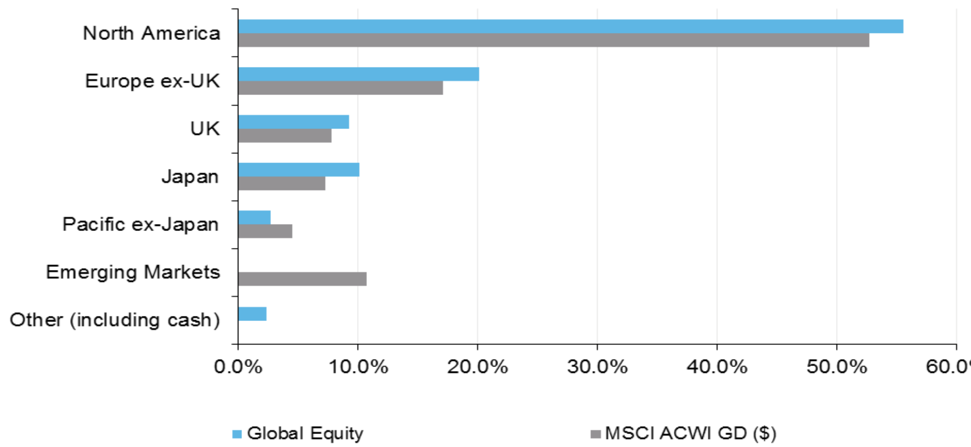
5 Years Ending 3/31/2014



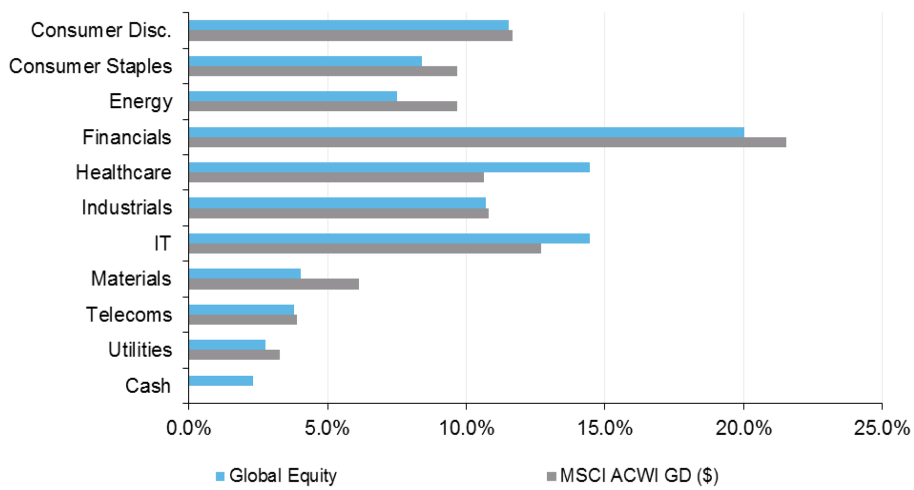
Growth of $1,000 (Inception: January 2004)



Regional Allocation Quarter Ending 3/31/2014



Sector Allocation Quarter Ending 3/31/2014



Notes

Composite performance (USD) is gross of fees and sourced from eVestment.

Aon Hewitt

Ratings Explanation

Below we describe the criteria which we use to rate fund management organizations and their specific investment products. Each criterion, except for Operational Due Diligence ("ODD"), is individually rated from 1 to 4, where:

1 = Weak
2 = Average
3 = Above Average
4 = Strong

The ODD factor can be assigned a Pass, Conditional Pass, or Fail rating and can be interpreted as follows:

Pass – Our research indicates that the manager has acceptable operational controls and procedures in place.

Conditional Pass – We have specific concerns that the manager needs to address within a reasonable established timeframe.

Fail – Our research indicates that the manager has critical operational weaknesses and we recommend that clients formally review the appointment.

An overall rating is then derived for the product from the individual ratings. We do not assign a fixed weight to each criterion to establish the overall rating; instead we consider each case individually. The overall rating score can be interpreted as follows:

Buy	=	We recommend purchase of this investment product
Buy (Closed)	=	We recommend purchase of this investment product, however it is closed to new investors
Hold	=	We recommend client investments in this product are maintained
Sell	=	We recommend termination of client investments in this product
In Review	=	The rating is under review as we evaluate factors that may cause us to change the current rating.

The comments and assertions reflect our views of the specific investment product and our opinion of its strengths and weaknesses.

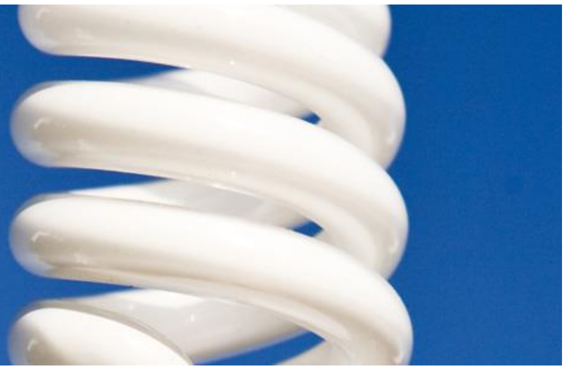
Disclaimer

This document has been produced by the Global Investment Management Team of Aon plc. Nothing in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this document alone. Consultants will be pleased to answer questions on its contents but cannot give individual financial advice. Individuals are recommended to seek independent financial advice in respect of their own personal circumstances.

Aon plc
8 Devonshire Square
London
EC2M 4PL

SC Due Diligence Team
Bryan W. Moore, CFA, Senior Investment Officer ("Investment Team")

Summary Terms Chart		
	Investment Officer Summary:	**Source Location:**
Manager Name:	D.E. Shaw Investment Management, L.L.C.	Term Sheet
Fund/Investment Name:	D.E. Shaw World Enhanced Plus Strategy	Term Sheet
Primary Custodian(s) or Safekeeping Agent(s) (together with point of contact information if other than BONY Mellon):	In-Bank, Bank of New York Mellon	Term Sheet
RSIC Investment Size & Limitations (Commitment):	Up to 4% of Total Plan Assets	Term Sheet/Fiscal Year 2013-14 SIOP: Specialty Mandates
Management Fee:	Yes, the fees proposed below are contingent upon an investment of US $700 million. Fee schedule for the first 30 months after funding of the mandate: 42 basis points on the initial US $100 million 39 basis points on the next US $100 million, and 35 basis points on all assets over US $200 million The above fee schedule reflects an approximately 10% discount from the fee schedule outlined immediately below. Upon expiration of the 30-month discount period, the fee schedule would be as follows: 47 basis points on the initial US $100 million 43 basis points on the next US $100 million 39 basis points on all assets over US $200 million The figures presented above are annualized rates; management fees would be assessed monthly in accordance DE Shaw's customary investment management agreement provisions concerning the calculation and payment of fees.	Term Sheet
Performance Fees/Carried Interest:	No	Term Sheet
Hurdle Rate/Preferred Return:	No	Term Sheet
Organizational Expenses:	No	Term Sheet
Other Expenses/Fees:	No	Term Sheet
Manager Commitment:	No	Term Sheet
Anticipated Investment Period:	No	Term Sheet
Anticipated Investment/Fund Term:	One year, with four automatic one-year extensions	Term Sheet
Withdrawal Rights:	RSIC Directed, subject to such notice and other requirements as the parties may agree in a definitive investment management agreement	Term Sheet
Placement Agent Used in Obtaining Investment by RSIC:	No	Term Sheet/Placement Agent Letter



InTotal

Global Investment Management

D.E. Shaw Investment Management, LLC — World Active/Alpha

Review Date	Current Rating	Previous Rating
August 2014	Buy	No Change

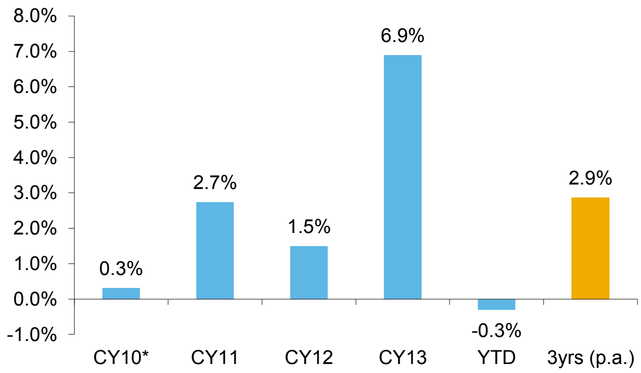
Overall Rating

D.E Shaw & Co. L.P. ("DES") is an established fund manager whose systematic process aims to generate excess returns that are uncorrelated to general market risk factors in a risk-controlled manner. This Buy rating applies to all systematic strategies of a similar risk/return profile. D.E. Shaw Investment Management, L.L.C. ("DESIM") is a subsidiary that manages a range of structured equity strategies. We believe DESIM's investment process is highly differentiated from many of its peers. For example, the alpha model eschews ubiquitous quantitative alpha forecasts based on price momentum, earnings revisions, and valuation. The investment team is led by Phillip Kearns, who was appointed in April 2013, following the departure of Tony Foley earlier in 2013. We believe Mr. Kearns has the necessary skills and capabilities to effectively lead the investment team and evolve the investment process.

Component Ratings

	Rating	*Previous Rating*
Overall	**Buy**	*No Change*
Business	3	*No Change*
Staff	4	*No Change*
Process	3	*No Change*
Risk	3	*No Change*
ODD	Pass	*No Change*
Performance	3	*No Change*
T&C	2	*No Change*

Relative Performance to June 2014



*Denotes incomplete year. Composite performance (USD) is gross of fees relative to MSCI All Country World Index GD. CY = calendar year. Source: eVestment

Firm Summary

Head Office Location	New York, NY	**Parent Name**	D.E Shaw & Co. L.P.
Firm AUM	$33.7 billion	**Investment Staff**	35
Equity AUM	$9.4 billion for DESIM	**Equity Staff**	35

Portfolio Strategy Characteristics

Team Location	London, UK; New York, NY	**Team Head**	Phillip Kearns
Strategy Inception	August 2010	**Strategy Size**	$927 million
Number of Holdings	600 – 800	**Annual Turnover**	200 – 400% per annum
Benchmark	MSCI World Index		
Performance Objective	1.75 – 2.50% outperformance over a full market cycle (gross of fees)		

Risk Tolerance Target	2.5% p.a. target tracking error range

Note: AUM and Staff numbers as at June 2014.

Investment Manager Evaluation

Rating Sheet		
Factor	**Rating**	**Comments**
Business	3	D.E Shaw & Co. L.P. ("DES") is an established fund manager whose subsidiary, D.E. Shaw Investment Management, L.L.C. ("DESIM"), manages a range of structured equity strategies. DES is 76% owned by its employees with the majority of equity capital held by founder David Shaw. The Lehman Brothers estate owns a further 20% with Bank of America owning the remaining 4%. We would prefer wider ownership amongst employees, but note that employees are co-invested in the firm's products with aggregate co-investment amounting to over $1.2bn.
Investment Staff	4	DESIM leverages off the large, experienced, and highly qualified centralized research team of DES to maintain and refresh the forecasts used within the investment process. We believe that the environment at DESIM stimulates the essential creativity and team work required to ensure that the firm remains ahead of its peers. The investment team is led by Phillip Kearns, who was appointed in April 2013 following the departure of Tony Foley earlier in 2013. We believe Mr. Kearns has the necessary skills and capabilities to effectively lead the investment team and evolve the investment process. We note that Mr. Kearns is a Managing Director at D.E. Shaw, a position reserved for approximately 35 employees amongst an employee base of over a thousand. Mr. Kearns is a tenured D.E. Shaw employee, having joined the Firm in 2004, and has over 20 years of investment experience with an interesting array of skills, including having been a member of the fixed income trading group with experience in government bonds and interest rates, as well as quantitative trading in areas such as equity index futures, commodity futures, and currencies.
Investment Process	3	The systematic process employed by DESIM utilizes proprietary forecast models in three principal areas: event-driven, technical and fundamental. We believe that a key area of strength for the investment process is its sophisticated proprietary optimizer and transaction cost model that run throughout the trading day. Another area of differentiation is the focus on continuously identifying unconventional sources of alpha that are not correlated to other quantitative processes. For example, the alpha model eschews ubiquitous quantitative alpha forecasts based on price momentum, earnings revisions, and valuation.
Risk Management	3	Risk management is integrated into the investment process through the proprietary optimizer that controls for over 40 different risk factors. Although the optimizer runs throughout the day, we would prefer the independent risk team to be more involved in daily monitoring of the portfolio. However, the risk team is actively involved in identifying and implementing new risk factors, which we view positively.
Operational Due Diligence	Pass	The Firm has a well-resourced back office infrastructure. We believe the operations and controls to be adequate. In November 2013, the SEC initiated a general examination of each registered investment adviser in the D. E. Shaw group, including DESIM. That examination has not concluded.

Rating Sheet		
Factor	**Rating**	**Comments**
Performance Analysis	3	Although the track record of this strategy is fairly limited, DESIM has a long history of generating consistent, risk controlled outperformance in its U.S. strategies. We are encouraged by attribution analysis of the longer term U.S. and shorter global performance which shows that the bulk of the outperformance is generated from alpha sources that are uncorrelated to general market risk factors. We have confidence that this strategy will achieve its performance objective.
Terms & Conditions	2	Our experience of client service has been positive. However, we note that D.E. Shaw is less willing to share details of their investment models compared to other managers. Fees are higher than average as compared to peers.
Overall Rating	**Buy**	D.E Shaw & Co. L.P. ("DES") is an established fund manager whose systematic process aims to generate excess returns that are uncorrelated to general market risk factors in a risk-controlled manner. D.E. Shaw Investment Management, L.L.C. ("DESIM") is a subsidiary that manages a range of structured equity strategies. We believe DESIM's investment process is highly differentiated from many of its peers. For example, the alpha model eschews ubiquitous quantitative alpha forecasts based on price momentum, earnings revisions, and valuation. The investment team is led by Phillip Kearns, who was appointed in April 2013, following the departure of Tony Foley earlier in 2013. We believe Mr. Kearns has the necessary skills and capabilities to effectively lead the investment team and evolve the investment process.

Manager Profile

Overview

DES was founded in 1988 by David Shaw. The firm's philosophy is based upon a systematic approach to investing and it is considered a leader in the implementation of such strategies. DES invests across a broad range of asset classes including equities, fixed income, credit, commodities and currency, primarily in multi-strategy and macro oriented portfolios.

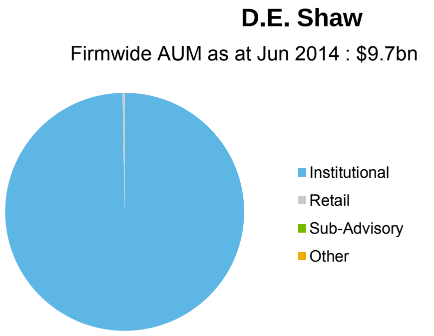
DESIM was formed in 2005 as part of the larger DES Group to manage benchmark-relative strategies for institutional clients. All of DESIM's current strategies are structured equity strategies that leverage off the expertise developed and implemented within the wider DES group.

The firm is authorized and regulated by the Securities and Exchange Commission and the Financial Services Authority.

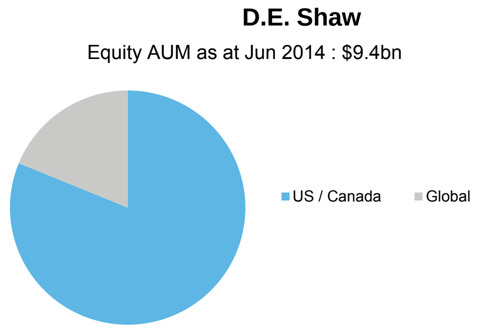
Business

- DES is 76% owned by its employees, with founder David Shaw holding a significant majority interest. The balance of the equity capital is held by the Lehman Brothers estate (20%) and Bank of America (4%).
- DES announced in the second quarter of 2013 that the Lehman Brothers estate was looking to sell its 20% stake.
- DES has over 1000 employees including 200 investment professionals. The majority of staff is based in New York and India; however the firm also has offices in London, Hong Kong, Dubai and Bermuda.

Client Base



Data sourced from eVestment



Data sourced from eVestment

- DES has approximately $33.7 billion in assets under management. The business is well-diversified by type of client and region.
- DESIM $9.4 billion in long only and 130/30 type products.
- Employees have over $1.2 billion invested in the firm’s products, the vast majority of which is held in Composite, DES's flagship multi-strategy offering.

Investment Staff

Key Staff	Position	Date Joined	Years of Experience
Philip Kearns	Managing Director, D.E Shaw Investment management	2005	25
Anne Dinning	Managing Director, Chief Investment Officer -D.E Shaw Investment management , Equity	1990	21
Trey Beck	Managing Director – Investor Relations and External Affairs	1993	18
Stuart Steckler	Chief Administrative Officer	1989	26
Anoop Prasad	Head of Quantitative Equity Research for D. E. Shaw Group	1997	15
Ted McDonald	Chief Risk Officer	2003	15

- The top four individuals listed above comprise DESIM's Executive Committee.
- Philip Kearns is the portfolio manager responsible for all the benchmark-relative structured equity strategies. He has a portfolio management team of approximately five people that support him in implementation.
- Mr. Kearns is a tenured D.E. Shaw employee, and is one of 35 Managing Directors at D.E. Shaw and has over 20 years of investment experience, largely in the quantitative space.
- Anoop Prasad leads the centralized quantitative equity research team of around 50 people that develop and implement new alpha forecasts into the benchmark-relative structured equity process. This resource is shared with the firm's hedge fund strategies.

Investment Process

Philosophy

DESIM believes markets are not always efficient and that market inefficiencies may be identified through the application of sophisticated quantitative analysis. DESIM believes inefficiencies should be identified through a controlled approach of hypothesis formulation, testing, and then validation which reduces the risk of data mining.

Process

The investment process is a fully systematic approach that uses several distinct quantitative investment models designed to capitalize on particular market inefficiencies. Each model can be classified into one of the following three categories:

- Technical – models that use market data such as prices and volumes of instruments
- Event-driven – models that generally predict or react to corporate actions or events
- Fundamental – models that generally use information taken from company financial statements

Each alpha model results in a forecasted return for a particular stock over specific time horizons. The time horizon for models varies significantly from a few days for some technical models to a number of years for some fundamental models. Each model forecasts the expected alpha over different time horizons for each company in DESIM's universe of approximately 7,500 stocks throughout the trading day. These are combined into an overall alpha forecast for each stock over various time horizons.

The combined alpha forecasts are then inputted into a proprietary optimizer that is used to construct and modify portfolios. The optimizer incorporates transaction cost and risk models with the aim of maximizing the portfolio's net return per unit of tracking error risk.

The overall portfolio is split into three regional components (North America, Europe and Asia Pacific) which are optimized and traded separately. These components are combined in proportion to the benchmark weight of these regions as DESIM does not look to take regional bets against the benchmark. The investment team is responsible for implementing and monitoring the portfolios generated by DESIM's optimizer.

DESIM uses DES' centralized quantitative equity research team to develop and implement new models over time as well as monitor the performance of the current models. The quantitative equity research process is fairly structured with regular meetings where new model ideas are proposed and new research prioritized. The models that the team generates are used both by the hedge funds that DES manages and DESIM, however forecasts which are very short term or generate significant turnover will not be implemented in DESIM strategies.

Risk Management

Risk management is integrated into the investment process as DES' proprietary risk tools allow it to monitor risk in real-time. DESIM's use of proprietary risk models rather than those offered by a third party (e.g., BARRA) reduces the likelihood of it generating similar optimization results to other quantitative managers; thus differentiating it from peers.

The optimizer, which runs throughout the trading day, has built-in constraints that control the amount of risk taken relative to the benchmark focusing on factors such as style, market capitalization, sector, industry group, liquidity, country, macroeconomic factors, and a number of other systematic risk factors identified by DES. Through this process DESIM looks to minimize the amount of risk taken through exposure to these factors so that its strategies can deliver an uncorrelated source of relative returns.

DES has an independent risk team that monitors exposures on a firm level and concentrate its efforts on developing and implementing new risk factors rather than monitoring specific strategies.

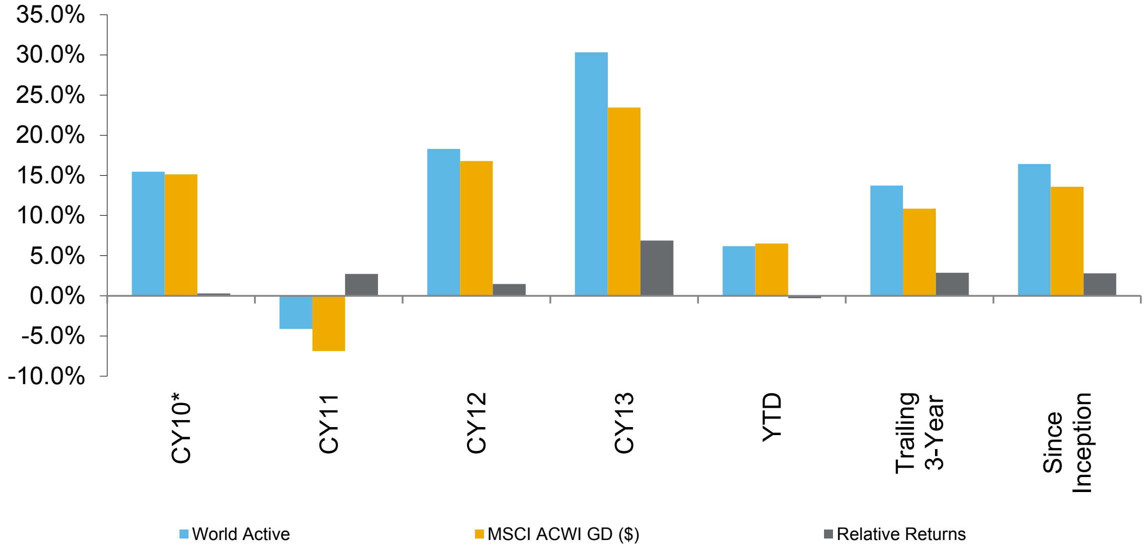
Operational Due Diligence

- DES is registered with the SEC and the FSA.
- In November 2013, the SEC initiated a general examination of each registered investment adviser in the D. E. Shaw group, including DESIM. That examination has not concluded.
- The firm has a sizeable back office operation with detailed internal controls and procedures.
- 2012 Financial statements have been audited by Ernst & Young and the fund received an unqualified opinion.

Terms & Conditions	Separate Account ($50 million minimum): ▪ First $100 million: 63 bps ▪ Next $100 million: 57 bps ▪ Balance: 51 bps

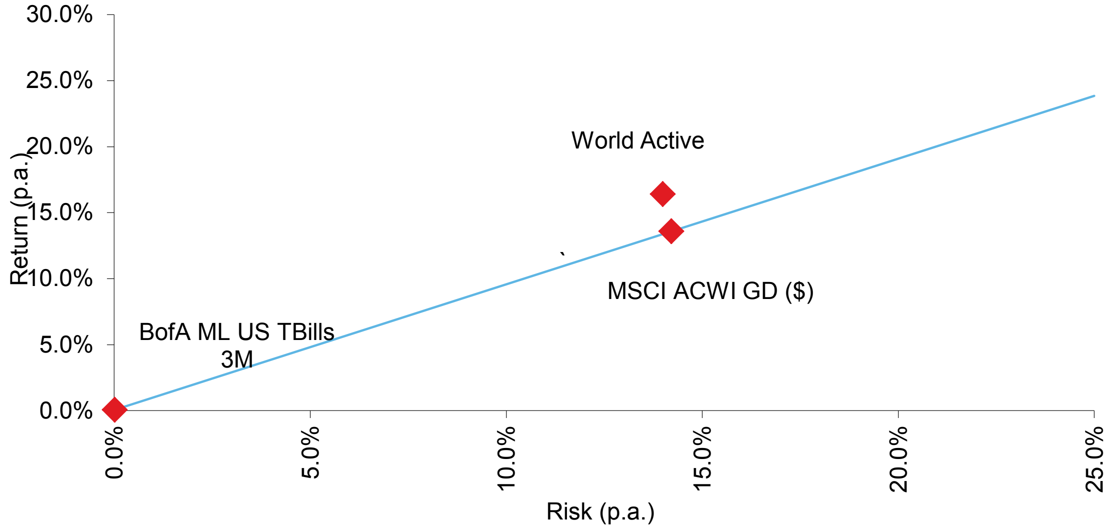
Performance and Risk Metrics

Historic Performance (Inception: August 2010)



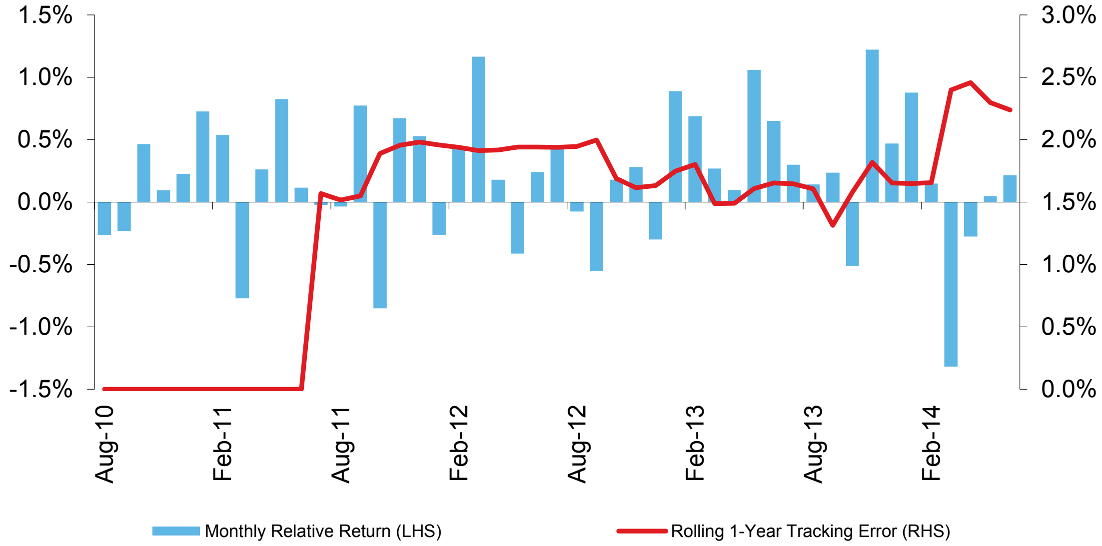
Risk – Return

3 year 11 Months Ending 6/30/2014

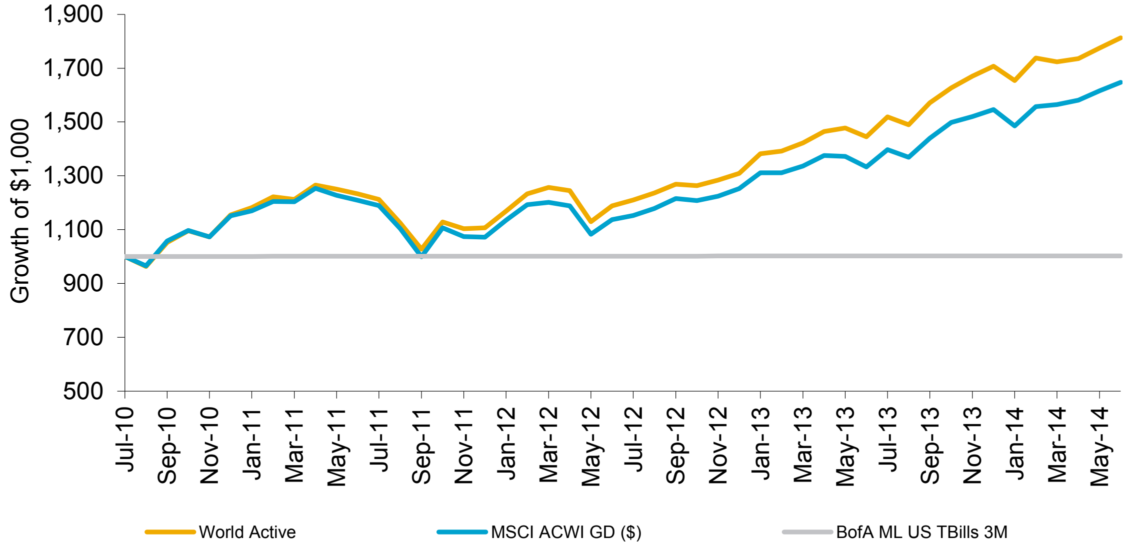


AON Hewitt

Monthly Relative Return and Tracking Error 3 year 11 Months Ending 6/30/2014



Growth of $1,000 (Inception: August 2010)



Notes

Composite performance (USD) is gross of fees and sourced from eVestment.

Ratings Explanation

Below we describe the criteria which we use to rate fund management organisations and their specific investment products. Each criterion, except for Operational Due Diligence ("ODD"), is individually rated from 1 to 4, where:

1	=	Weak
2	=	Average
3	=	Above Average
4	=	Strong

The ODD factor can be assigned a Pass, Conditional Pass, or Fail rating and can be interpreted as follows:

Pass – Our research indicates that the manager has acceptable operational controls and procedures in place.

Conditional Pass – We have specific concerns that the manager needs to address within a reasonable established timeframe.

Fail – Our research indicates that the manager has critical operational weaknesses and we recommend that clients formally review the appointment.

An overall rating is then derived for the product from the individual ratings. We do not assign a fixed weight to each criterion to establish the overall rating; instead we consider each case individually. The overall rating score can be interpreted as follows:

Buy	=	We recommend purchase of this investment product
Buy (Closed)	=	We recommend purchase of this investment product, however it is closed to new investors.
Hold	=	We recommend client investments in this product are maintained
Sell	=	We recommend termination of client investments in this product
In Review	=	The rating is under review as we evaluate factors that may cause us to change the current rating.

The comments and assertions reflect our views of the specific investment product and our opinion of its strengths and weaknesses.

Disclaimer

This document has been produced by the Global Investment Management Team of Aon plc. Nothing in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this document alone. Consultants will be pleased to answer questions on its contents but cannot give individual financial advice. Individuals are recommended to seek independent financial advice in respect of their own personal circumstances.

Aon plc
8 Devonshire Square
London
EC2M 4PL

SC Due Diligence Team
Bryan W. Moore, CFA, Senior Investment Officer ("Investment Team")

Summary Terms Chart		
	Investment Officer Summary:	**Source Location:**
Manager Name:	INTECH Investment Management LLC	Term Sheet
Fund/Investment Name:	MSCI World Enhanced Plus	Term Sheet
Primary Custodian(s) or Safekeeping Agent(s) (together with point of contact information if other than BONY Mellon):	In-Bank, Bank of New York Mellon	Term Sheet
RSIC Investment Size & Limitations (Commitment):	Up to 4% of Total Plan Assets	Term Sheet/Fiscal Year 2013-14 SIOP: Specialty Mandates
Management Fee:	**Yes**, First $100 million: 0.35% Next $100 million: 0.25% Next $100 million: 0.22% Next $200 million: 0.18% Next $300 million: 0.16% Over $800 million: 0.15% The management fee is calculated at the end of each calendar quarter and is based on the average assets under management over the quarter; fees will be payable in arrears for each quarter.	Term Sheet
Performance Fees/Carried Interest:	**No**	Term Sheet
Hurdle Rate/Preferred Return:	**No**	Term Sheet
Organizational Expenses:	**No**	Term Sheet
Other Expenses/Fees:	**No**	Term Sheet
Manager Commitment:	**No**	Term Sheet
Anticipated Investment Period:	**No**	Term Sheet
Anticipated Investment/Fund Term:	One year, with four automatic one-year extensions.	Term Sheet
Withdrawal Rights:	RSIC Directed	Term Sheet
Placement Agent Used in Obtaining Investment by RSIC:	**No**	Term Sheet/Placement Agent Letter

INTECH Investment Management LLC

Global Large Cap Core

Review Date	Current Rating	Previous Rating
June 2013	Buy	No Change

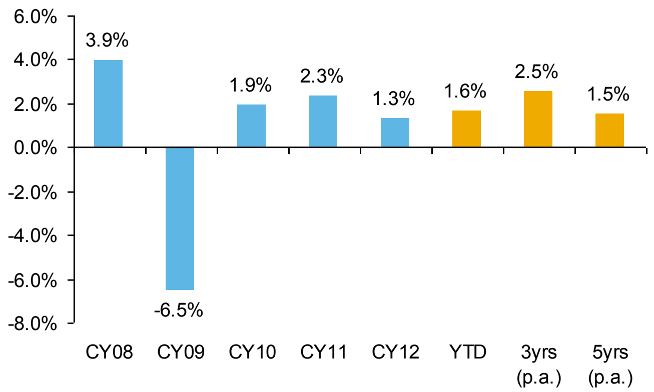
Overall Rating

The INTECH Global Large Cap Core strategy utilizes a unique investment philosophy based on mathematics to provide investors with superior risk-adjusted returns with low correlations to the excess returns of many typical fundamental and quantitative managers. We have confidence in the manager's statistically-based investment approach as well as the caliber of its investment professionals and maintain a Buy rating for the strategy.

Component Ratings

	Rating	*Previous Rating*
Overall	**Buy**	*No Change*
Business	3	*No Change*
Staff	3	*No Change*
Process	3	*No Change*
Risk	3	*No Change*
ODD	Pass	*No Change*
Performance	3	*No Change*
T&C	3	*No Change*

Relative Performance to March 2013



Composite performance (USD) is gross of fees relative to the MSCI World Index. CY = calendar year. Source: eVestment Alliance.

Firm Summary

Head Office Location	West Palm Beach, FL	**Parent Name**	Janus Capital Group Inc.
Firm AUM	$41.7 billion	**Investment Staff**	10
Equity AUM	$41.7 billion	**Equity Staff**	10

Portfolio Strategy Characteristics

Team Location	Princeton, NJ	**Team Head**	Adrian Banner
Strategy Inception	January 2005	**Strategy Size**	$2.4 billion
Number of Holdings	500 – 800	**Annual Turnover**	110 – 130%
Benchmark	MSCI World Index		
Performance Objective	2.50 – 3.00% outperformance over a three- to five-year period		
Risk Tolerance Target	3.00 – 3.75% tracking error target over the long term		

Note: AUM and Staff numbers as at March 2013

Investment Manager Evaluation

Rating Sheet		
Factor	**Rating**	**Comments**
Business	3	INTECH remains an independently-managed subsidiary of Janus Capital Group, which owns approximately 97 percent of INTECH. Employees at INTECH own the remaining 3 percent of the firm, which has decreased steadily each year since 2002 when Janus acquired a 50.1 percent majority ownership stake in the firm. INTECH's assets under management have been under pressure due to significant outflows across several of its domestic equity strategies. The firm has experienced over $11 billion in net outflows over the past five years as of March 31, 2013.
Investment Staff	3	INTECH's team of research analysts, all with Ph.D.'s in mathematics or physics, extol a significant amount of time conducting ongoing research to identify and implement enhancements to the engineering of the investment process. All research is scientific and mathematical, as opposed to fundamental, and is oriented towards the mathematical application to portfolio management and systems improvements. The firm has an established record of published papers and issued patents that attest to the ongoing research efforts by the senior members of the firm. Historically, the stability of the research team has been high, but there has been turnover noted in recent periods. In 2010, Phi-Long Nguyen-Thanh left the organization and Phillip Whitman joined the research team. At the end of 2011, Dr. E. Robert Fernholz and Robert Garvy assumed new roles as part of a well-communicated transition of leadership to the next generation within the firm. Jennifer Young resigned as the Chairman and CEO of the firm in November 2012 due to personal reasons. Adrian Banner took over as CEO and also remains the CIO of the firm. Vassilios Papathanakos' role at the firm changed from Director of Research to Deputy CIO while Phillip Whitman was promoted from Associate Director of Research to Director of Research.
Investment Process	3	INTECH believes that the iterative mathematical model takes the emotion out of investing, because stock volatility and correlation determines the number of stocks and the weights of stocks in the portfolio. The proprietary model has been marginally tweaked over time, but the main techniques and procedures have remained for the entire historical record. The portfolio uses optimal weighting techniques to add value and thus does not depend on individual names to drive performance. INTECH's investment process is based on mathematical theory and applies the Stochastic Portfolio Theory to its process. This mathematical volatility capture strategy tends to result in a non-correlated pattern of excess returns relative to other managers, quantitative or fundamental. INTECH treats its methodology for estimating the forward-looking volatilities and correlations as a trade secret and believes it is the primary source of its competitive advantage. The team's process requires accurate estimates of future correlations between securities, and the firm believes the complex, statistical methods it has developed to derive these estimates from historical trading patterns gives the firm its primary competitive advantage. In addition, the firm's detailed focus on transaction costs provides it an advantage relative to the typical institutional investment manager.

Rating Sheet		
Factor	**Rating**	**Comments**
Risk Management	3	While INTECH's approach is quantitative, the process allows some variation between the portfolio's weighting and that of its benchmark. A proprietary risk model is built into the mathematical investment approach. Optimization and rebalancing of the portfolio is performed on a regular basis.
Operational Due Diligence	Pass	The last SEC examination was in May of 2005. In 2009, INTECH settled a matter with the SEC that arose from that examination regarding the firm's proxy voting procedures. The firm settled without admitting or denying the SEC's findings. The firm was also recently involved in a lawsuit relating to the firm's investment management for the Alabama PACT Fund. The action was dismissed in early 2010.
Performance Analysis	3	The strategy has outperformed the MSCI World Index over trailing one-, three-, and five-year periods. Although the strategy significantly underperformed in 2009, longer-term risk-adjusted returns remain quite favorable.
Terms & Conditions	3	Our consultant/client relations experience has been satisfactory. INTECH's standard fee for the Global Large Cap Core strategy is competitive when compared to peers.
Overall Rating	**Buy**	The INTECH Global Large Cap Core strategy utilizes a unique investment philosophy based on mathematics to provide investors with superior risk-adjusted returns with low correlations to the excess returns of many typical fundamental and quantitative managers. We have confidence in the manager's statistically-based investment approach as well as the caliber of its investment professionals and maintain a Buy rating for the strategy.

Manager Profile

Overview

INTECH was founded on June 30, 1987, and maintains its headquarters in West Palm Beach, FL, a research office in Princeton, NJ, and an international office in London. Prior to February 2002, INTECH was a wholly owned subsidiary of the Prudential Insurance Company. In February 2002, INTECH was purchased by Stilwell Financial, which merged its operations with Janus Capital Corporation on January 1, 2003, to become Janus Capital Group Inc. As a result of the merger, INTECH became an indirect subsidiary of Janus.

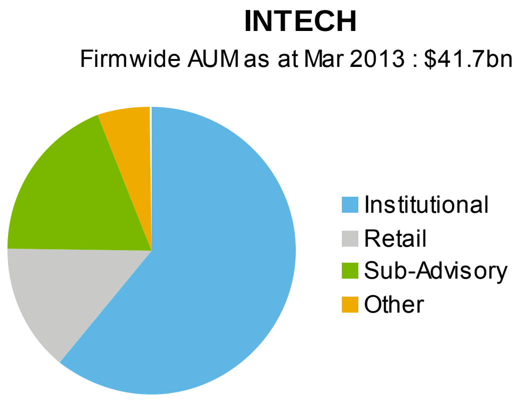
INTECH has a unique mathematically based strategy that attempts to build a more mean-variance efficient portfolio than a market index by accurately estimating future risks and correlations between individual securities and groups of securities based on historical trading patterns. In the process, the team refrains from evaluating companies, stocks, or industries in the typical fundamental fashion. The manager believes that although markets are efficient, market-value weighted indices are not efficient. INTECH attempts to create a portfolio with less risk than, but which still tracks, the corresponding index. The process does not attempt to maximize return; instead, the portfolio is intended to maximize the information ratio, the excess (relative) return per unit of risk, over long periods of time

---

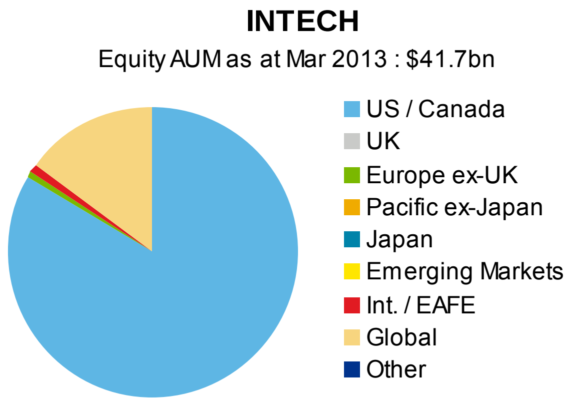
Business

- Although the corporate owner of INTECH changed through an internal reorganization in 2002 and Janus' ownership has increased almost annually since 2003, Janus has given INTECH autonomy to manage its business independently of the broader organization. As a result, we have not seen negative repercussions from change in ownership.
- Employees own 3 percent of INTECH, while Janus owns a controlling 97 percent stake. The number of employees and percentage of ownership by each employee is proprietary and unavailable for public dissemination. However, all investment professionals at the firm have equity stakes in INTECH as well as Janus except for Jonathan Hanke who joined INTECH in 2012.
- Effective December 31, 2011, Robert Garvy and Dr. E. Robert Fernholz completed long-announced transitions to new roles within the firm. Mr. Garvy, formerly Chairman and Co-Chief Executive Officer now holds the titles of Founder and Chairman Emeritus while Dr. Fernholz relinquishes his role as Co-Chief Investment Officer but retains the position of Chairman of the Investment Committee. Both will continue to serve the firm in strategic consulting roles, with Mr. Garvy representing the firm to clients and prospects and Dr. Fernholz working with the research team and collaborating on product development. Both have signed three-year employment contracts that expire December 31, 2014, and have sold most of their ownership stakes in INTECH and Janus back to the respective firms.
- Jennifer Young, formerly the firm's President and Co-CEO, succeeded Mr. Garvy as Chairman and Chief Executive Officer. Adrian Banner, formerly INTECH's Co-CIO, succeeded Dr. Fernholz as Chief Investment Officer. Adrian Banner signed an employment contract with the firm through 2018. We are informed other key professionals also have employment contracts with various expiration dates.
- Mrs. Young resigned as the Chairman and CEO of the firm in November 2012 due to personal reasons. Adrian Banner took over as CEO and also remains the CIO of the firm. Vassilios Papathanakos' role at the firm changed from Director of Research to Deputy CIO while Phillip Whitman was promoted from Associate Director of Research to Director of Research.

Client Base



Data sourced from eVestment Alliance



Data sourced from eVestment Alliance

- INTECH had $41.7 billion in assets under management as of March 31, 2013. All of the firm's assets are within equity product offerings. INTECH's client base is heavily skewed to institutional investors through separate account relationships.
- The INTECH Global Large Cap Core strategy had $2.4 billion in assets under management as of March 31, 2013.

Investment Staff

Key Staff	Position	Date Joined	Years of Experience
Adrian Banner, Ph.D.	Chief Executive Officer; Chief Investment Officer	2002	11
Vassilios Papathanakos, Ph.D.	Deputy Chief Investment Officer	2006	7
Phillip Whitman, Ph.D.	Director of Research	2010	3
Jonathan Hanke, Ph.D.	Associate Director of Research	2012	1
Joseph Runnels, CFA	VP, Portfolio Management	1998	22

The investment team is led by Dr. Adrian Banner, CEO and CIO. He is responsible for enhancements to the mathematical model developed by Dr. E. Robert Fernholz. As a result of their unique quantitative approach, Dr. Banner's role is more of overseeing the optimization process than traditional portfolio management. Dr. Banner has ultimate decision making authority and accountability for portfolio management decisions.

Dr. Banner is supported by a team of academics that consists of Deputy CIO Vassilios Papathanakos (Ph.D., Physics, Princeton University), Director of Research Phillip Whitman (Ph.D., Mathematics, Princeton University, Associate Director of Research Jonathan Hanke (Ph.D., Mathematics, Princeton University), and Ioannis Karatzas (Ph.D., Mathematical Statistics, Columbia University).

Joseph Runnels is responsible for the implementation of portfolio management decisions and trading. Mr. Runnels is supported by a team of quantitative portfolio analysts who assist in the trading function and serve as his backup.

Investment Process

Philosophy

INTECH has a unique mathematically-based strategy that attempts to build a more mean-variance efficient portfolio than a market index by accurately estimating future risks and correlations between individual securities and groups of securities based on historical trading patterns. In the process, the team refrains from evaluating companies, stocks, or industries in the typical fundamental fashion. The manager believes that although markets are efficient, market-value weighted indices are not efficient. INTECH attempts to create a portfolio with less risk than, but which still tracks, the corresponding index. The process does not attempt to maximize return; instead, the portfolio is intended to maximize the information ratio, the excess (relative) return per unit of risk, over long periods of time.

Process

The process begins with a quantitative screen that addresses bankruptcy or liquidity risk by eliminating stocks with low Value Line ranks, low prices, or low daily traded volume. The process then uses four years of trailing historical security returns to estimate future volatilities of and correlations between individual stock returns. The volatilities and correlations are used to construct a broadly diversified portfolio with a higher long-term return and a lower volatility than the corresponding index.

Optimal security weights are determined each week and a rebalancing process occurs every six days so that weights are returned to their target (optimal) weight. Individual stock volatility determines the number of stocks in the portfolio. The manager incorporates significant investment constraints to reduce risk and maintains a beta below that of the benchmark index.

Individual security positions for the INTECH Global Large Cap Core strategy are limited up to 2.5% or 20x times the maximum differential from the index weight on individual securities.

Risk Management

While INTECH's approach is quantitative, the process allows some variation between the portfolio's weighting and that of its benchmark. A proprietary risk model is built into the mathematical investment approach. Optimization and rebalancing of the portfolio is done on a regular basis.

Operational Due Diligence

The last SEC examination was in May of 2005. In 2009, INTECH settled a matter with the SEC that arose from that examination regarding the firm's proxy voting procedures. The firm settled without admitting or denying the SEC's findings. The firm was also recently involved in a lawsuit relating to the firm's investment management for the Alabama PACT Fund. The action was dismissed in early 2010.

Terms & Conditions

Separate Account: (Minimum $50 million)

- First $100 million: 55 bps
- Next $100 million: 50 bps
- Next $100 million: 45 bps
- Next $200 million: 43 bps
- Balance: 40 bps

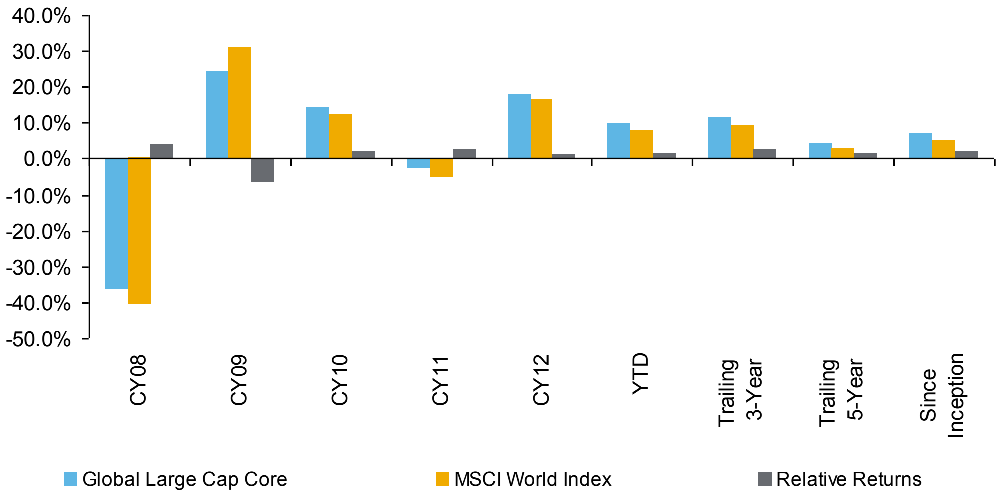
Commingled Fund: (Minimum $5 million)

- First $50 million: 57 bps

- Next $50 million: 55 bps
- Next $100 million: 50 bps
- Balance: 45 bps

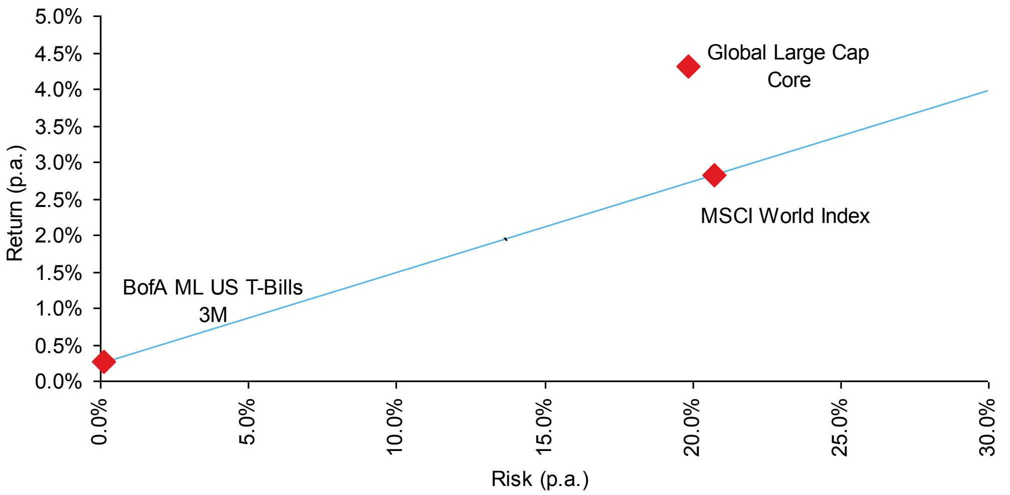
Performance and Risk Metrics

Historic Performance (Inception: January 2005)



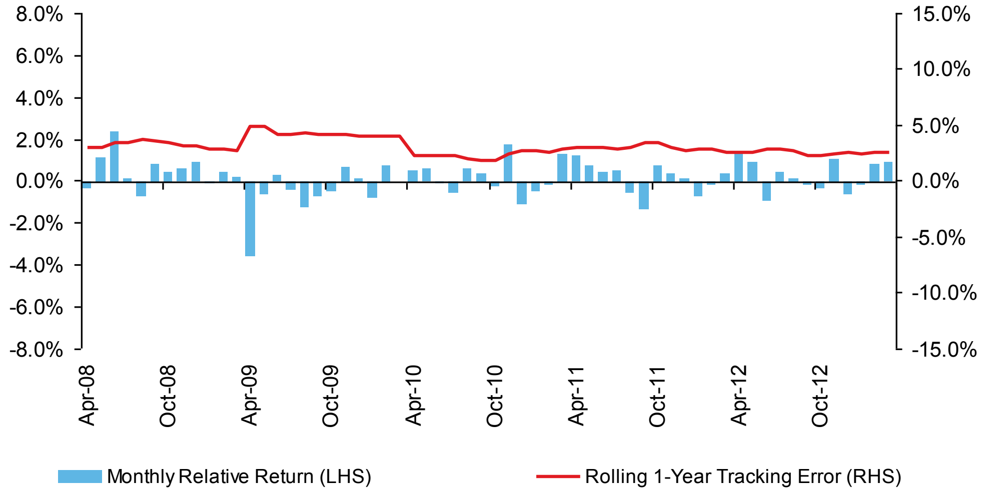
Risk – Return

5 Years Ending 3/31/2013

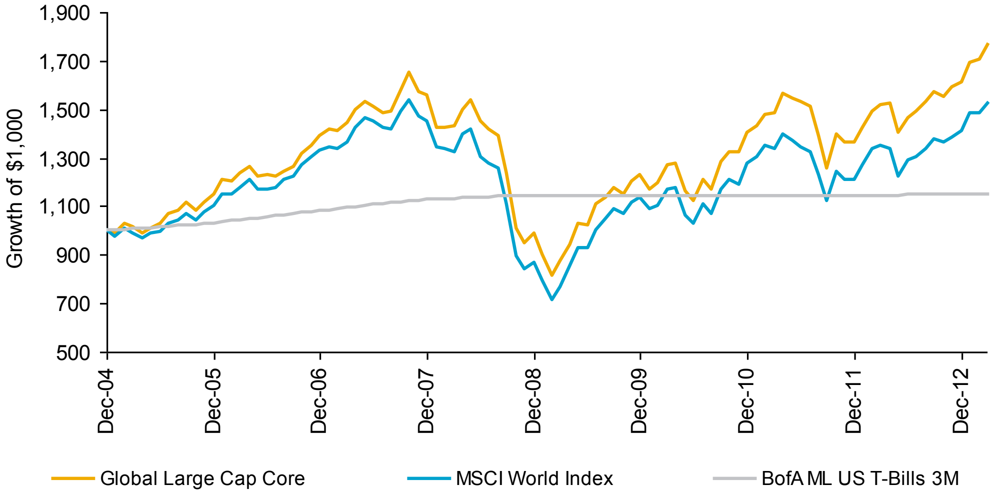


Monthly Return and 12-Month Rolling Tracking Error

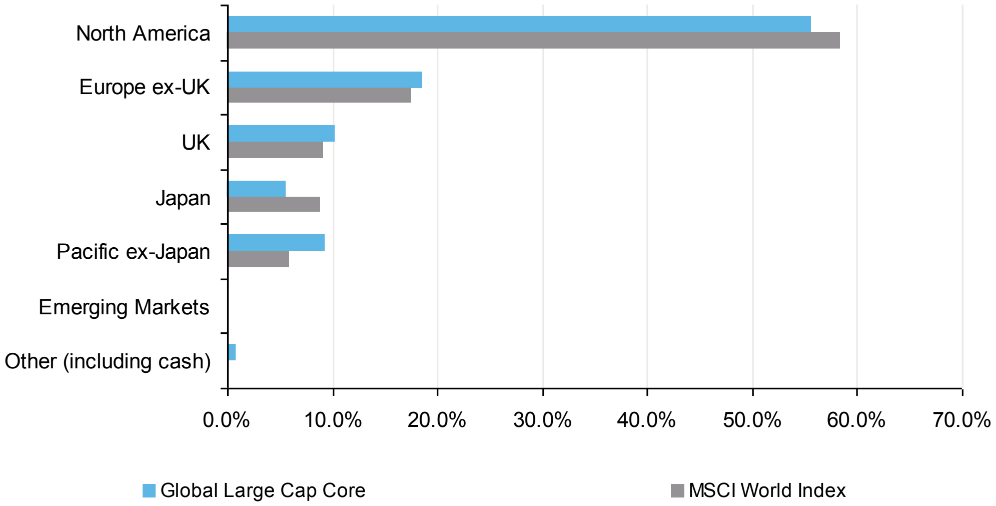
5 Years Ending 3/31/2013



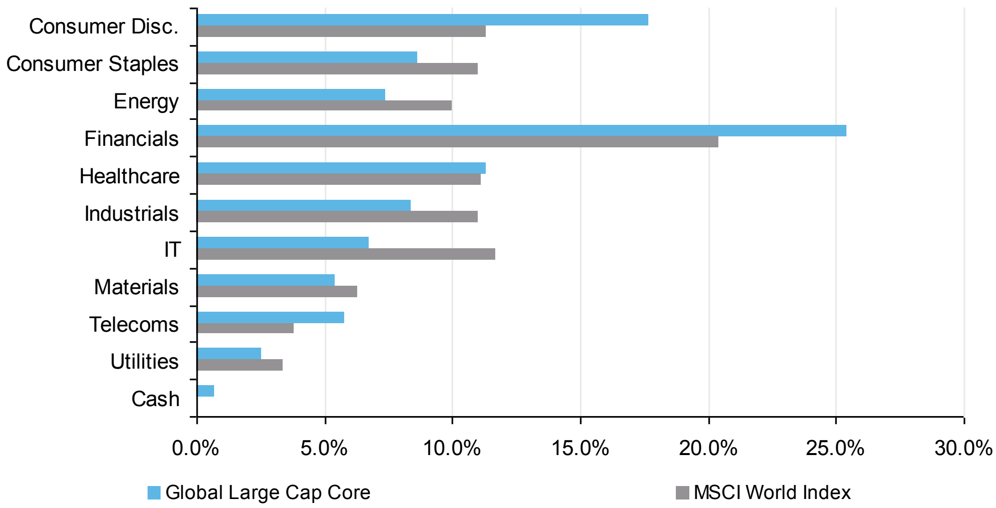
Growth of $1,000 (Inception: January 2005)



Regional Allocation Quarter Ending 3/31/2013



Sector Allocation Quarter Ending 3/31/2013



Notes

Composite performance (USD) is gross of fees and sourced from eVestment Alliance.

Ratings Explanation

Below we describe the criteria which we use to rate fund management organizations and their specific investment products. Each criterion, except for Operational Due Diligence ("ODD"), is individually rated from 1 to 4, where:

1 = Weak
2 = Average
3 = Above Average
4 = Strong

The ODD factor can be assigned a Pass, Conditional Pass, or Fail rating and can be interpreted as follows:

Pass – Our research indicates that the manager has acceptable operational controls and procedures in place.

Conditional Pass – We have specific concerns that the manager needs to address within a reasonable established timeframe.

Fail – Our research indicates that the manager has critical operational weaknesses and we recommend that clients formally review the appointment.

An overall rating is then derived for the product from the individual ratings. We do not assign a fixed weight to each criterion to establish the overall rating; instead we consider each case individually. The overall rating score can be interpreted as follows:

Buy	=	We recommend purchase of this investment product
Buy (Closed)	=	We recommend purchase of this investment product, however it is closed to new investors
Hold	=	We recommend client investments in this product are maintained
Sell	=	We recommend termination of client investments in this product
In Review	=	The rating is under review as we evaluate factors that may cause us to change the current rating.

The comments and assertions reflect our views of the specific investment product and our opinion of its strengths and weaknesses.

Disclaimer

This document has been produced by the Global Investment Management Team of Aon plc. Nothing in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this document alone. Consultants will be pleased to answer questions on its contents but cannot give individual financial advice. Individuals are recommended to seek independent financial advice in respect of their own personal circumstances.

Aon plc
8 Devonshire Square
London
EC2M 4PL

Brookfield Real Estate Finance Fund IV

SC Retirement System Investment Commission
10/2/2014

Eric Rovelli, CFA
James Wingo, CFA

Overview

- Summary
- Portfolio Fit
- Firm Overview
- Fund Team Overview
- Investment Rationale
- Performance Analysis
- Investment Considerations

Summary

- $50 million commitment to Brookfield Real Estate Finance Fund IV ("BREF IV")

- Directly originated real-estate backed mezzanine debt in the 60% - 80% LTV tranche

- Focus on high quality assets in major US markets, including New York, Boston, San Francisco, and Los Angeles

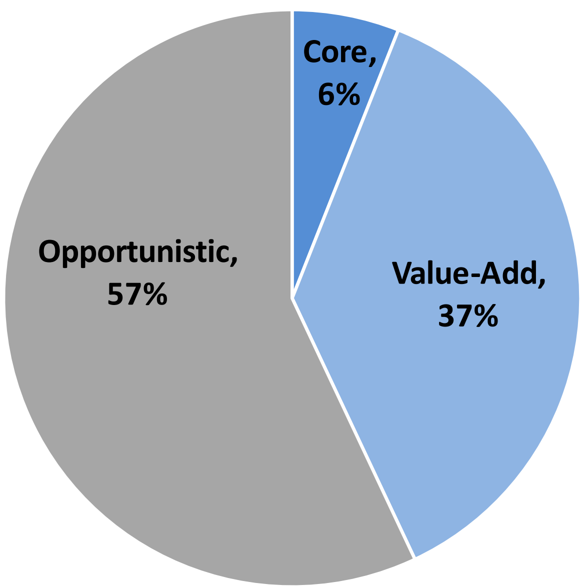
- Target net IRR of 9% - 11%, consisting primarily of current income

- Key Terms:
  - 3-year investment period
  - 1.5% management fee on invested equity
  - 20% carry, 8% preferred return and 50% catch-up

Portfolio Fit: Current vs. Target Exposure

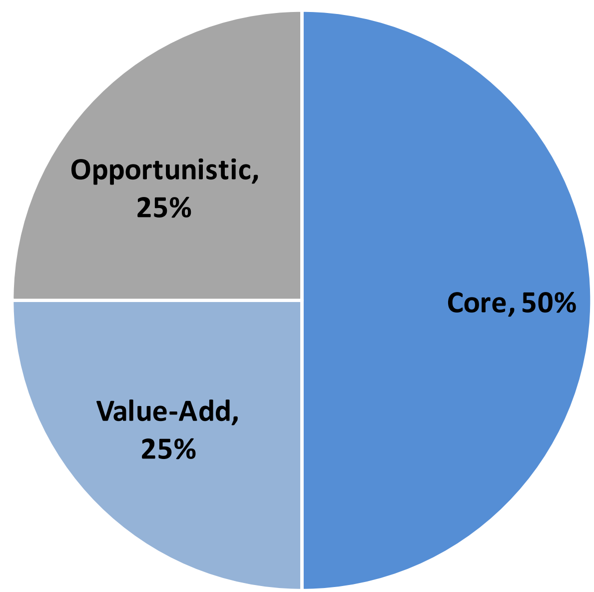
- **Objective:** Transition to a more stable, balanced portfolio with higher income generation
- **Execution:** The RSIC Real Estate Plan projects a transition to a balanced allocation over a 5-7 year time horizon

Current RSIC Real Estate Exposure



5-7 Yr Plan

Target RSIC Real Estate Exposure

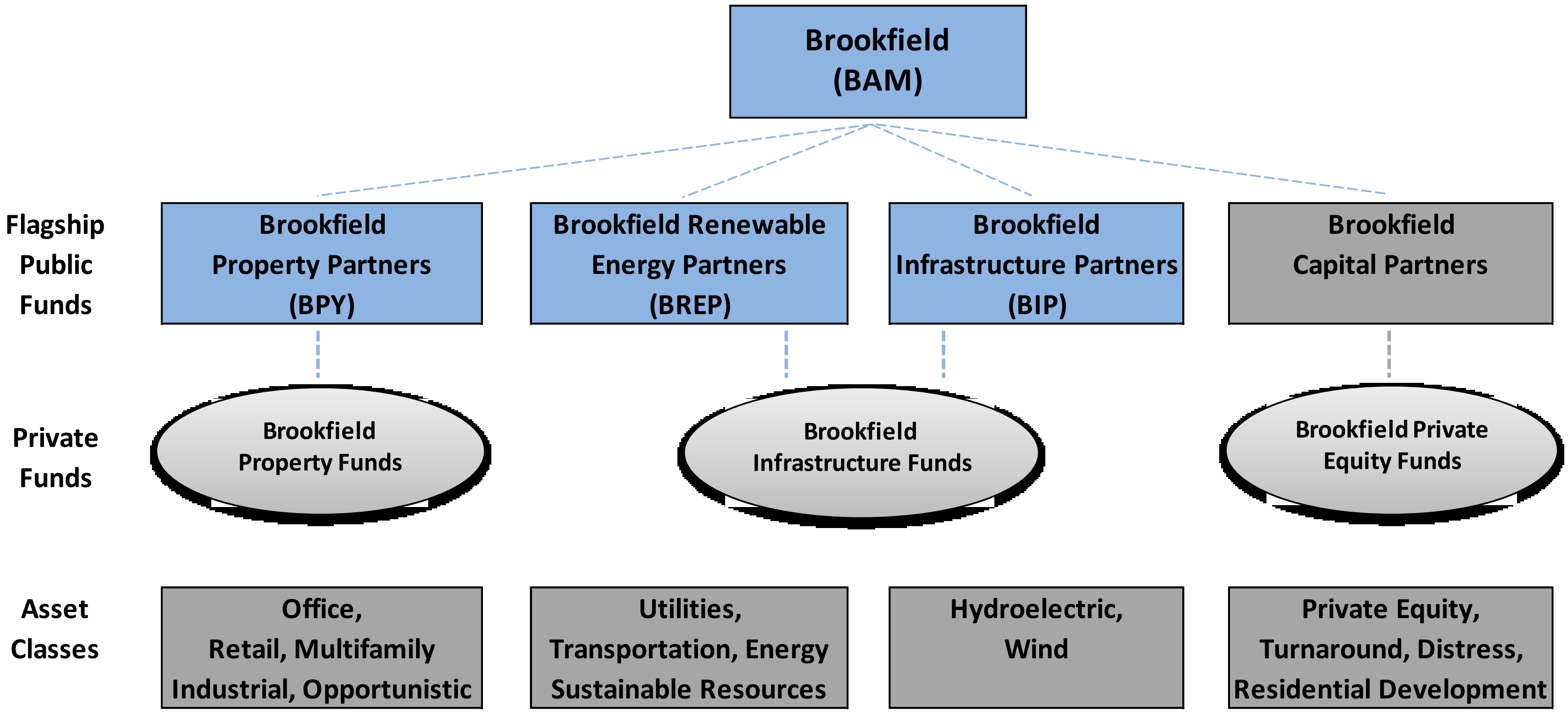


Source: RSIC

SC Retirement System Investment Commission

Brookfield Overview

- **Institutional Scale:** Publicly listed company (NYSE: BAM) with $190 billion in assets under management across real estate, infrastructure, private equity, and energy.



Source: Brookfield

Brookfield Overview

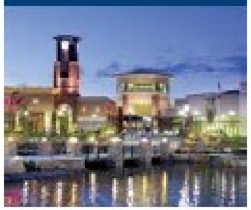
- **Experienced Operator:** Brookfield's real estate group has $103 billion in assets under management, structured as large, vertically integrated operating platforms in each of the 5 major sectors

Brookfield Property Group
$103 Billion[1]

OFFICE
~$39.8 BILLION
164 Properties
~ 95 million sq. ft.
Development Potential
~29 million sq. ft.

Brookfield Office Properties

RETAIL
~$47.2 BILLION
173 Regional Malls
~153 million sq. ft.
$2.0B Re-development Pipeline



GGP
ROUSEPROPERTIES
Brookfield Brazil Retail

MULTIFAMILY
~$7.6 BILLION
20,000 Apartments Owned
~52,000 Apartments Managed

FAIRFIELD RESIDENTIAL

INDUSTRIAL[1]
~$3.5 BILLION
220 Industrial Properties
~64 million sq. ft.
Development Potential
~79 million sq. ft.

GAZELEY
IDI Industrial Developments International

HOTEL & OTHER
~$5.3 BILLION
~8 Hotels with 7,500 Rooms

ATLANTIS
HARD ROCK HOTEL & CASINO

Source: Brookfield

BREF IV Team Overview

- **Seasoned Team:** BREF IV's investment team averages 10+ years of real estate debt experience.
- **Stable Leadership:** Andrea Balkan has lead the team since the strategy's inception in 2004.
- **Vertical Integration:** The team will execute all sourcing, origination, underwriting, closing, asset management, and financial reporting functions.

Brookfield Real Estate Finance Fund IV Team

Andrea Balkan **Managing Partner** *28 years of finance experience*	**Terry Hoyt** **Senior Vice President** *25 years of finance & legal experience*	**Justin Monge** **Senior Vice President** *20 years of finance & investing experience*	**Chris Reilly** **Senior Vice President** *22 years of finance & investing experience*	**John Lee** **Senior Vice President** *20 years of finance & asset management experience*	**Tim McGuire** **Vice President** *10 years of finance & capital markets experience*
Alison Giampa **Vice President** *11 years of finance & legal experience*	**Kathryn Gregorio** **Vice President** *28 years of finance & asset management experience*	**Palmer Dobbs** **Senior Associate** *7 years of finance & underwriting experience*	**Amit Rustgi** **Associate** *7 years of finance & underwriting experience*	**Justin Mazouat** **Assistant Controllor** *7 years of accounting & reporting experience*	

Source: Brookfield

Investment Rationale

1) **Proven Approach:** Demonstrated ability to mitigate credit losses through periods of market distress

2) **Compelling Market:** Has allowed the BREF team to generate a $250 million pipeline of loans collateralized by high quality real estate at spreads of L+900 to L+1100.

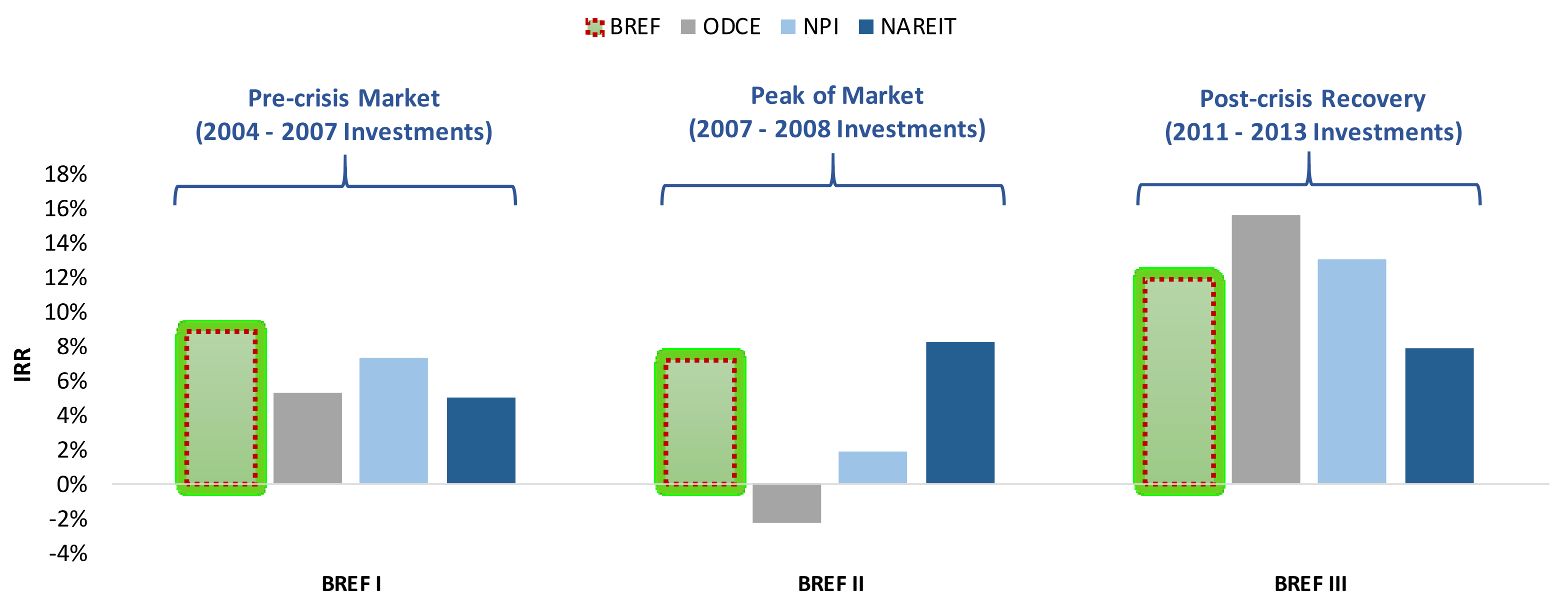
3) **Strong Alignment:** Brookfield will be the largest investor in the fund with a commitment of $250 million (~20% of fund capital) providing for strong alignment of interests with investors.

Performance Analysis

- **Basis of Comparison:** BREF's actual returns are compared to the returns that would have been generated if the same cash flows had been invested in the indexes shown.

- **Downside Mitigation:** Performance demonstrates the advantages of holding senior positions in the capital stack in a market downturn

BREF Performance Comparison



Source: RSIC, Brookfield, NCREIF, NAREIT

Investment Considerations

- **Floating Rate Debt:** Borrowers could face debt service coverage challenges as interest rates rise
  - BREF requires borrowers to purchase Libor caps at closing
- **Firm Structure:** Potential conflicts stemming from the use of internal capabilities.
  - Brookfield has created alignment by being the fund's largest investor
- **AUM Growth:** BREF's staffing levels have grown slower than the team's growth in assets under management from BREF III – IV
  - The pace of investment implied by BREF IV's AUM is on par with that of BREF I and II

SC Due Diligence Team	Investment
Eric Rovelli, CFA – Senior Real Estate Officer James Wingo, CFA – Investment Officer	Brookfield Real Estate Finance Fund IV, L.P.

Summary Terms Chart:		**Source**
Manager Name	Brookfield Real Estate Finance Fund IV GP, LLC	LPA - Recital
Fund/Investment Name:	Brookfield Real Estate Finance Fund IV, L.P.	LPA - Recital
Primary Custodian(s) or Safekeeping Agent(s) (together with point of contact information if other than BONY Mellon)	Tom Ishikawa JP Morgan Chase Phone: (312) 954-9084 (Office) Email: Tom.y.ishikawa@jpmchase.com	
RSIC Investment Size & Limitations:	$50 million	
Management Fee:	**Yes**, 1.5% on Funded Commitments	LPA- Section 4.3 and Definitions- 1.104, 1.76
Performance Fee/ Carried Interest:	**Yes**, 20%	LPA- Section 6.1
Hurdle Rate/ Preferred Return:	**Yes**, 8% Preferred Return	LPA- Section 6.1
Organizational Expenses	**Yes**, capped at $2 million	LPA- Sections 4.3, 4.4
Other Expenses/Fees	**Yes**, Operating Expenses	LPA- Section 4.4
Sponsor Commitment	**Yes**, $250 million	LPA- Section 3.1
Anticipated Investment Period:	3 Years, beginning on the Initial Closing Date	LPA- Definitions, 1.43, 1.85
Anticipated Investment/Fund Term	10 Years, beginning on the Initial Closing Date with two 1-year extensions	LPA- Section 2.4
Withdrawal Rights	**No**	LPA- Section 3.4
Placement Agent Used by RSIC	**No**	Placement Agent Disclosure Letter

AON Hewitt

InDetail

Global Investment Management

Brookfield Asset Management — Real Estate Finance Fund IV

Review Date	Current Rating	Previous Rating
May 2014	Buy	Not Rated

Fund Strategy Summary

Brookfield Real Estate Finance Fund IV ("BREF" or the "Fund") is a closed-end, commercial real estate debt fund seeking to originate loans as well as provide capital to acquire or recapitalize real estate investments located primarily in the U.S. The strategy will predominately focus on the mezzanine position of the capital stack, typically originating the whole loan and then selling off the senior debt while holding onto the subordinate piece, specifically in the 60 – 80% LTV tranche. Overall, Fund IV is targeting a net IRR of 10%, comprised predominantly of current income.

Component Ratings

	Rating	*Previous Rating*
Overall	**Buy**	*New Rating*
Business	3	*New Rating*
Staff	3	*New Rating*
Process	3	*New Rating*
Risk	3	*New Rating*
ODD	Pass	*New Rating*
Performance	3	*New Rating*
T&C	2	*New Rating*

Relative Vintage Year Performance as of Dec. 31, 2013

Fund	Vintage Year	Realized	Total Multiple Of Cost (Net)	Net Multiple Quartile	Net IRR	IRR Quartile
BREF I	2004	82%	1.7x*	2	8.8%	2
BREF II	2007	83%	1.2x	2	7.1%	1
BREF III	2011	13%	1.1x	4	11.9%	3

Data as of 12/31/2013

* Adjusted for recycled capital

Fund Performance (USD) is net of fees relative to NCREIF Fund Index – Closed End Value Add Index; Source: Manager, NCREIF

Firm Summary

Head Office Location	Toronto, ON, New York, NY	**Parent Name**	Brookfield Asset Management
Assets Under Mgmt	$187 billion	**Investment staff**	700
Real Estate AUM	$105 billion	**Real Estate staff**	255

Portfolio Strategy Characteristics

Team Location	New York, NY	**Portfolio Manager**	Andrea Balkin
Strategy Inception	2004	**Team Size / Dedicated**	10/10
Target Fund Size (GAV)	$850 million	**Target range of Holdings**	15-20
Liquidity / Structure	Close Ended	**Opportunity Set**	U.S. Real Estate
Risk Level of Strategy	Average	**Max/Target Leverage**	50%/35% (Fund-level)*
Max Non-US Allocation	15%	**Max Development**	10%
Valuation Policy	Internal quarterly		
Performance Objective	13% Gross / 10% Net IRR		

**See Risk Management Systems section of the document for more discussion about the additional inherent leverage present in a mezzanine strategy*

Overview

Brookfield is establishing Brookfield Real Estate Finance Fund IV ("BREF IV"), a closed-end fund, as its primary private offering to invest in U.S. commercial real estate debt. BREF IV is a continuation of the same real estate finance strategy that Brookfield has executed throughout the past decade to invest nearly $2.5 billion of equity across more than 60 transactions and is generally consistent with its predecessors.

Brookfield Property Group ("BPY"), with over 250 real estate investment professionals, is BAM's flagship public commercial property company and most significant investment platform of the firm, with just over $100 billion of global assets under management. Brookfield's U.S. real estate finance program began in 2004, and has been actively investing with a similar strategy since, having invested more than $2.7 billion across three previous funds and over 60 transactions.

Investment Merits

The major merits for this recommendation are listed below:

Compelling Strategy: BREF IV will focus on building a diversified portfolio of loans targeting subordinate debt investments generally within the 60% to 80% LTV tranche of a property financing. Brookfield believes that, in targeting a 60% to 80% LTV, BREF IV will benefit from the market opportunity arising from more than $1 trillion in commercial real estate debt expected to mature between 2013 and 2018. Many of these mortgages exhibit an "equity gap" that will require additional leverage beyond the 50% to 60% LTV that traditional lenders currently offer in order to complete refinancings. While lending volumes are recovering, the debt supply remains far below peak levels, which is expected to create opportunities for the Fund to provide gap capital.

Experienced, Stable Team: BREF IV will be managed by the same senior investment team responsible for Brookfield's real estate finance investments and operations of its previous three funds. The senior team has on average almost 20 years of experience that combines real estate finance, capital markets, investing and asset management.

Track Record: Brookfield has one of the most established commingled debt fund track records relative to its peers. Brookfield's real estate debt program has deployed $2.7 billion of capital in three predecessor funds over the last ten years. Despite major distress in the commercial real estate debt market, BREF I, BREF II and BREF III have been able to generate attractive, risk-adjusted returns to date, with minimal defaults (4 out of 61 loans).

Global Operating Platform: With over $105 billion of real estate AUM, Brookfield is one of the largest property investors and operators worldwide. Brookfield's global real estate operating platform (15,200 professionals) and in-house asset and property management professionals can provide the Fund with access to resources and expertise well beyond those typically available to a stand-alone funds of similar size. Brookfield's broader real estate platform is expected to provide the Fund with additional perspective on the U.S. property markets, access to real-time market data and experience across multiple real estate sectors and risk / return profiles.

Experienced Leadership with Strong Sponsorship Support: Brookfield has a 100-year history of owning, operating and investing in businesses with underlying tangible assets. The current senior managing partners average over 25 years of experience in the real estate industry and 18 years working at BAM. This experienced and stable group of senior partners has a considerable investment in the company, owning nearly 20% of Brookfield Asset Management. Furthermore, BAM is contributing a co-investment of $250 million to BREF IV.

Ability to Take Back Asset in Default Situations: Although BREF IV will not pursue loan-to-own investments, the Fund's affiliation with Brookfield's operating platforms enables BREF to take an active role in the management of investments in default situations in order to protect the Fund's capital and maximize investment returns rather than pursuing an early liquidation. Across BREF's 61 loan transactions, four investments became non-performing during BREF's hold period. In three out of the four situations, BREF was able to successfully gain ownership of the properties after foreclosure, and access to BAM's operating capabilities allowed the team to increase property cash flow of each of the assets. Two of the three investments have generated substantial equity multiples upon disposition (one achieved breakeven results).

Investment Concerns

While we believe Brookfield and Real Estate Finance Fund IV offer a compelling investment opportunity, there are a few concerns that need to be considered prior to investment. Each concern is addressed below, along with any potential mitigating factors that reduce our level of concern.

Syndication Risks: A component of BREF IV's strategy depends in part upon its ability to syndicate or sell participations in senior interests in select investments, thus a disruption in credit markets may therefore adversely affect the value of these investments.

- Mitigating Factor: As part of the investment process, BREF will look to simultaneously close and sell the senior loan to a pre-identified third-party lender. In most cases, BREF has identified three or four potential lenders during the team's diligence process of the potential investment.

Newer Corporate Alignment: In 2010, Brookfield reorganized its global properties business. BAM's property investments are now conducted through fully integrated flagship real estate platforms: Brookfield Office Properties; Brookfield Residential; General Growth Properties and Rouse Properties; Fairfield Residential; Hillwood Industrial Partners and now Brookfield Property Partners, which hold the real estate debt fund series.

- Mitigating Factor: The new corporate alignment had little impact on the real estate finance team. While the company has grown its staff to match the level of capital it has raised, the senior team responsible for the Debt Fund series is the same. In addition, the investment and asset management positions of BAM have exhibited very low turnover during the past six years.

Key Terms Summary

Investment Period	3 yrs from initial closing date	Term	7 yrs after investment period ends
Minimum Commitment	$10 million	GP Commitment	$250 million
Preferred Return	8%	Catch Up Split	50/50 GP/LP
Carried Interest	20%		
Management Fee	150 bps per annum based on invested capital		
Other Fees	None		

Data is as of 12/31/2013, unless otherwise noted.

Recommendation

Based on our due diligence and evaluation of this manager, we have confidence that this team has a high potential to achieve the investment objectives of the Fund; and therefore, have provided the Fund with a BUY rating.

Ratings Sheet		
Factor	**Rating**	**Comments**
Business	3	Brookfield has created a multifaceted platform that clearly exhibits the core principles of the senior managers. The alignment of interests between BAM, its investors, and its people is very strong. BAM is supported by its diversified business portfolio, principally commercial real estate and power generation assets, which provide a stable stream of earnings and cash flows for the Firm. At $105 billion, real estate makes up the lion's share of total AUM of BAM, accounting for over 50% of all assets. BREF, which has been actively investing with a similar strategy since 2004, has invested more than $2.7 billion across three previous funds and over 60 transactions. Despite our generally positive view of BAM's business management acumen we maintain a level of concern due to the company's corporate "public" profile and somewhat complex structure and withhold our highest rating for this factor.
Investment Staff	3	The day-to-day operations of BREF IV will be conducted by a core group of 10 investment professionals who possess strong real estate and finance capabilities. The Fund will be led by Andrea Balkan, Managing Partner, who has been with the firm for over 12 years and has over 28 years of industry experience. The BREF team has on average 18 years of experience in commercial real estate investing, financing and capital markets, including extensive experience originating real estate debt throughout a variety of credit cycles and market conditions. The team will also leverage the vast resources available through the entire BAM organization. BAM's investment professionals have a strong incentive compensation structure ensuring a dual commitment to short-term goals and long-term performance, which is exhibited in the stability of the senior management team. While the team is deep and has oversight from BAM's senior professionals, we believe Ms. Balkin represents a key component of the BREF team, thus key person risk is slightly elevated.
Investment Process	3	BREF IV will mainly target mezzanine investments within the 60%-80% LTV tranche, seeking to capitalize on the "equity gap" arising from more than $1 trillion in commercial real estate debt expected to mature over the next five years. BAM's significant activity in the capital markets should provide advantages to the Fund as the BREF team and BAM have long-standing relationships with investment and commercial banks and other financial institutions, real estate owners, professional investment brokers and advisors involved in real estate finance, which they expect to leverage to source and execute investments for the Fund. Through its operating platforms, Brookfield has an on-the-ground presence in several U.S. markets and across many key property sectors against which BREF IV may lend. In evaluating potential transactions, the BREF team will draw upon professionals from across BAM's operating platforms for enhanced understanding of an investment's underlying property collateral. As with all other Brookfield investment platforms, BREF will have quality oversight by senior managing directors of the Firm, and overall processes are systematically structured providing a consistent approach to investing.

Data is as of 12/31/2013, unless otherwise noted.

Risk Management	3	Brookfield has established a risk management framework for managing strategic, operational and financial risks, including currency, interest rate, liquidity, financing, reporting and counterparty risk and this framework is leveraged to address the risks for BREF IV. The most senior and experienced professionals sit on the IC and votes require a unanimous consent. This process provides direct input from the senior most levels into the strategy of the Fund on a regular basis. BREF will seek to build an investment portfolio that provides diversification through real estate finance investment as well as by product type and geographical location of the underlying real estate being financed. In addition, when structuring loans, the team will utilize such protective features as; cash reserves, threshold tests, interest rate protection, and guarantees for borrowers “bad acts”. The Fund has the flexibility to employ a fund-level leverage strategy to the investment process, however, historically has been conservative with this approach (BREF III did not utilize leverage).
Operational Due Diligence	PASS	Overall, Brookfield’s internal controls and processes are in line with most peers, with a Finance & Operations Team providing oversight for all financial aspects of the Fund. BAM has its own Internal Audit Group, and the Chief Internal Auditor has held the position since 1999. BAM’s independent auditor is Deloitte LLP and is also the auditor for BREF. Financials are audited in accordance with ASC 820 and seeks to internally value the Fund’s underlying investments on a quarterly basis. Independent valuations are performed at least once every three years, which is standard in the space.
Performance Analysis	3	BREF has invested $2.7 billion in real estate credit through three previous U.S.-focused commingled funds since 2004. Each fund has produced positive results and have compared favorably relative to their respective vintage year. BREF III, the team’s most recent fund, is almost 90% committed and is currently yielding 15%. The debt program has only realized one loss out of more than 60 loan investments. While a total of four loans had experienced defaults, BREF was able to take back and managed three of the assets, which generated better results than having to liquidate early.
Terms & Conditions	2	Terms and conditions of the Fund are mostly in line with peer funds. One positive is the sizable co-investment from BAM of $250 million (or 18% of hard cap), providing a strong alignment of interest between the organization and investors. In addition, the firm does not charge a management fee (1.50%) until capital is invested. The Fund’s preferred return hurdle of 8% and 50/50 GP/LP catch-up is somewhat middle of the range relative to peers.
Overall Rating	**Buy**	The Fund’s access to the vast resources and local market intelligence of Brookfield’s affiliated operating platforms, combined with the team’s real estate finance expertise, provide BREF with significant capabilities in underwriting real estate collateral as well as capital markets. BREF has one of the most seasoned track records in the commercial mortgage lending space, which has resulted in solid performance across the fund series. With the team’s experience and focus on the type of assets typically associated with BAM investments (high quality) plus a good alignment of interest with investors, we have confidence that the sponsor has a high potential to achieve the investment objectives of this Fund.

AON Hewitt

Investment Strategy for Fund

BREF IV is Brookfield's primary private real estate finance investment vehicle. The Fund will seek to originate loans, provide capital to recapitalization transactions and purchase debt secured by real estate located primarily in the U.S.

The strategy will focus on the mezzanine piece of the capital stack, typically originating the whole loan and simultaneously selling off the senior debt position while holding onto the subordinate piece. The Fund will target subordinate debt investments generally within the 60% to 80% LTV tranche of a property financing. Brookfield believes that, in targeting a 60% to 80% LTV, BREF IV will benefit from the market opportunity arising from more than $1 trillion in commercial real estate debt expected to mature between 2013 and 2018. Many of these mortgages exhibit an "equity gap" that will require additional leverage beyond the 50% to 60% LTV that traditional lenders currently offer in order to complete refinancings.

BREF IV's business strategy for mezzanine debt investing, similar with previous funds, has the ability to utilized fund-level leverage to enhance performance. Historically, BREF has taken a conservative approach with the use of fund-level leverage. While the investment guidelines state no more than 50%, the team has targeted 35% overtime. The average fund-level leverage over the life of BREF I was 31%, BREF II – 22% and BREF III – 0%.

BREF IV's lending activities will focus principally on the most liquid markets and higher quality assets, which are the types of properties Brookfield is generally known for investing. In particular, the Fund will seek to finance commercial properties, mostly in transition, in sectors in which Brookfield has significant experience and operating platforms, specifically office, retail, multifamily and industrial properties.

Loan size will typically range from $30 - $50 million, which for a mezzanine position, would generally equate to larger assets. BREF will typically structure 5 year floating rate loans, generally 3-year term with 2 one-year extension options. In structuring the loans, BREF IV will seek to be the sole lender and look to control major decisions regarding the underlying property collateral. BREF is experienced in working with both institutional borrowers and smaller operators.

The Fund is targeting a gross IRR of 13% (net IRR of 10%). Brookfield anticipates that the return on investments targeted by the Fund will be derived predominantly from interest income collected during the term of an investment.

Investment Process

Brookfield's reputation and networks are expected to provide a consistent source of inbound deal flow for the BREF IV. Moreover, having established the U.S. debt platform in 2004, the BREF team itself has long-standing relationships with investment and commercial banks and other financial institutions, real estate owners, brokers and advisors involved in real estate finance that they expect to leverage in order to source attractive investments for the Fund as well.

BREF is a vertically integrated team, with origination, underwriting, closing, asset management and financial reporting functions. The BREF team is not segmented by industry; however, several members of the team have specific responsibilities which include sourcing and execution of acquisitions. The involvement of the other members of the team is determined on a transaction-by-transaction basis. In many cases, effective due diligence may require input from other property professionals at BAM who are most familiar with market conditions and other relevant characteristics. In doing so, BREF draws on Brookfield's broader resources and real estate expertise.

Each potential transaction is discussed in the BREF team's pipeline meetings, which provide a regular forum for discussion among members of the group. All potential investments will be vetted by the BREF team and screened informally with members of the Investment Committee ("IC") prior to commencing formal due diligence. The IC is comprised of senior professionals from Brookfield's global real estate platform and meets weekly to discuss new business, due diligence of investment opportunities and organizational and administrative matters for the real estate platform.

A formal presentation is made to the IC by the BREF team, and IC approval is required prior to key steps, such as closing and funding a loan commitment. The presentation includes a comprehensive overview of the opportunity, including an overview of the collateral property, the borrower, due diligence findings and detailed financial analysis. Before approving an investment, the IC will evaluate the projected investment returns, investment thesis and viability, market environment, investment risks and whether the potential investment achieves the Fund's objectives. Additionally, legal counsel may be utilized to help consider structuring and legal issues. Unanimous approval of the IC is required for all investments.

Following acquisition, the BREF team will regularly monitor portfolio investments for compliance with their particular covenants, their performance relative to initial expectations and the status of leverage, if any.

The asset management process will enable BREF to make timely and informed decisions during the term of an investment. On a quarterly basis, BREF performs a comprehensive review of the status and performance of all collateral properties underlying the debt investments held in a portfolio.

BREF expects that most Fund investments will be held to their respective maturity dates, although the Fund may engage in the sale of certain investments if, in the opinion of the team, value would be maximized.

AON Hewitt

ODD Overview

Overall, Brookfield's internal controls and processes are in line with the peers. A Finance & Operations Team provides oversight for all financial aspects of the Fund. BAM has its own Internal Audit Group which consists of 25 professionals.

BAM's independent auditor is Deloitte LLP, and has been so for more than 10 years. Deloitte is also the auditor for BREF IV, which financials are audited annually.

Valuations

Brookfield's valuation policy establishes a consistent and comparable approach to determining fair value of investments and lays out the valuation principles and methodology to be utilized for fair valuing assets. The valuation principles include the following: (i) the priority order of fair value measurement inputs to be used; (ii) the frequency of valuations; (iii) consistency; (iv) oversight and documentation requirements; and (v) use of external valuations.

- Fair value will be determined at least on an annual basis, generally at the fiscal year end of the fund. In addition, a valuation review will be performed on a quarterly basis to assess whether there is evidence of a significant change in the investment/asset fundamentals that warrants a change in fair value from the previous quarter. Fair value of each loan will be determined on a quarterly basis in connection with the preparation of the financial statements for the fund in accordance with U.S. GAAP;
- The valuation methodology should be applied consistently from period to period, except where circumstances warrant or a change will result in a better estimate of fair value; and
- BREF IV's team will have ultimate accountability for the valuations of investments used for performance reporting and for the preparation of fair value financial statements or similar disclosures, and as well as for ensuring they are in accordance with this Valuation Policy.

Brookfield monitors developments and emerging guidance as it relates to FASB 157/ASC 820 and the latest Accounting Standards Updates, and ensures that the Valuation Policy is in adherence to the latest standards.

Headline Risk & Litigation[1]

No senior member of the Firm has been reported to or investigated by any regulatory authority within the past ten years.

BAM has been subject to reviews by the Ontario Securities Commission ("OSC") and the SEC in its normal course and no significant issues were found. The last review by the OSC was in 2009. Brookfield was subject to a routine exam by the Financial Industry Regulatory Authority in 2010. Similarly, no significant issues were found.

Brookfield Asset Management Private Institutional Capital Adviser US, LLC, was subject to a presence examination by the SEC in 2013. No material findings were noted.

Brookfield is currently engaged in ongoing investigations into alleged misconduct related to a Brookfield affiliate and certain investment professionals in Brazil.

[1] Based on information provided by the General Partner. This has not been independently verified by Aon Hewitt nor by any law firms

As a publicly traded company, the interests of public shareholders of Brookfield may not be aligned with those of investors in the private funds. However, Brookfield appears to have well-defined processes and protocols in place to help ensure transparency and reduce the potential for conflicts of interest. BAM has an internal Conflicts Committee which is represented on the Investment Committee of each fund and reviews all investment decisions. Furthermore, such conflicts are typically discussed with the L.P. Advisory Committee for review and consent.

Other

Fiduciary Statement – The General Partner will be a wholly-owned subsidiary of Brookfield Asset Management Private Institutional Capital Adviser US LLC, a registered investment adviser under the Advisers Act. Furthermore, Brookfield has a compliance program that sets forth principles and guidelines to assist the firm and certain of its employees to satisfy their fiduciary obligations and comply with the requirements of the Advisers Act.

Placement Agents – The Firm does not have any third party marketing relationships and does not plan on using a placement agent.

Overall Review

The terms and conditions as presented in the offering memorandum are institutional quality and relatively in line with industry standards. The Management Fee structure is in line with others in the marketplace with value-added real estate debt funds.

In this section, we review the terms and conditions included in the offering memorandum and provide our opinion from a business perspective on how they compare to those generally found in industry practice.

General Partner	Positive	Brookfield Real Estate Finance Fund IV
First Close	Neutral	April 2014
Est. Final Close	Neutral	June 30, 2014
Investment Period	Neutral	Three years from Initial Close
Fund Term	Neutral	Ten years from the Initial Closing, with 2 one - year extension options
Target Fund Size	Neutral	$850 million
Hard Cap	Neutral	$1.325 billion
GP/Investment Team Commitment	Positive	$250 million
Target Return	Neutral	Gross IRR of 13% / Net IRR 10%
Preferred Return	Neutral	8%
Carried Interest	Neutral	20%
Catch Up	Neutral	(50/50) (GP/LP)
Clawback/Distributions	Neutral	Yes
Management Fee	Neutral	1.5% on invested capital.
Other Fees	Positive	None
Organizational Expenses	Neutral	Not to exceed $2 million
Placement Agent	Neutral	The Fund does not utilize a Placement Agent
Leverage	Neutral	Target 35%, not to exceed 50%
Key Man	Positive	Yes. Activated when Andrea Balkin is no longer devoting substantially all of her business time and attention to the Fund.

Data is as of 12/31/2013, unless otherwise noted.

GP Removal	Positive	In the event it is established that the General Partner has engaged in disabling conduct, the General Partner may be removed by majority L.P. vote.

Ratings Explanation

Below we describe the criteria which we use to rate fund management organizations and their specific investment products. Each criterion, except for Operational Due Diligence ("ODD"), is individually rated from 1 to 4, where:

1 = Weak
2 = Average
3 = Above Average
4 = Strong

The ODD factor can be assigned a Pass, Conditional Pass, or Fail rating and can be interpreted as follows:

Pass – Our research indicates that the manager has acceptable operational controls and procedures in place.
Conditional Pass – We have specific concerns that the manager needs to address within a reasonable established timeframe.
Fail – Our research indicates that the manager has critical operational weaknesses and we recommend that clients formally review the appointment.

An overall rating is then derived for the product from the individual ratings. We do not assign a fixed weight to each criterion to establish the overall rating; instead we consider each case individually. The overall rating score can be interpreted as follows:

Buy	=	We recommend purchase of this investment product
Buy (Closed)	=	We recommend purchase of this investment product, however it is closed to new investors
Hold	=	We recommend client investments in this product are maintained
Sell	=	We recommend termination of client investments in this product
In Review	=	The rating is under review as we evaluate factors that may cause us to change the current rating.

The comments and assertions reflect our views of the specific investment product and our opinion of its strengths and weaknesses.

Disclaimer

This document has been produced by the Global Investment Management Team of Aon plc. Nothing in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this document alone. Consultants will be pleased to answer questions on its contents but cannot give individual financial advice. Individuals are recommended to seek independent financial advice in respect of their own personal circumstances.

Aon plc
8 Devonshire Square
London EC2M 4PL
United Kingdom

KKR Lending Partners II

SC Retirement System Investment Commission

10/2/2014

Adam Jordan, CAIA

Alexander Campbell

RSIC

SC Retirement System Investment Commission

Overview

- Summary
- Portfolio Fit
- Market Dynamics
- KKR Lending Partners II Overview
- Investment Rationale
- Investment Considerations
- Economic Terms

Investment Summary

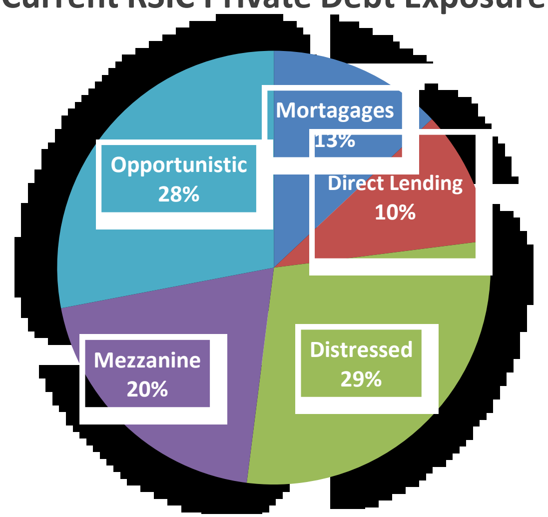
- $125 million commitment to KKR Lending Partners II (comingled fund)
- Direct Lending sub-strategy within Private Debt
- Primarily senior secured, US-based middle market corporate loans
- Target net IRR: 11-14% (leveraged strategy)
- Fund terms:
  - 3 year investment period; 6 year (+2) fund life
  - 1.25% mgmt fee on invested equity
  - 15% carry; 8% preferred return and 100% catchup
  - Quarterly distributions of income

5-Year Private Debt Implementation Plan

RSIC's Current Private Debt Portfolio Considerations:

1. **Direct Lending:** RSIC maintained modest exposure to the Direct Lending strategy since 2008. Continue to harvest existing investments and plan to meaningfully grow overall exposure to this strategy. Capitalize on direct lending opportunities in current market environment.
2. **Distressed:** Investments made to capitalize on the 2008 debt crisis. Harvest existing Distressed investments and reduce exposure going forward.
3. **Mezzanine:** Commitments in mezzanine funds have been relatively consistent across vintage years since the inception of the private markets program. Continue to maintain current exposure levels.
4. **Mortgages:** Similar to the distressed strategy, RSIC invested heavily in mortgages during the recovery from the 2008 financial crisis. Continue harvesting remaining investments.
5. **Opportunistic:** Managers have the discretion, within RSIC guidelines, to invest across a range of debt instruments to capitalize on market dislocations and other opportunities. Marginally increase Opportunistic investments going forward.

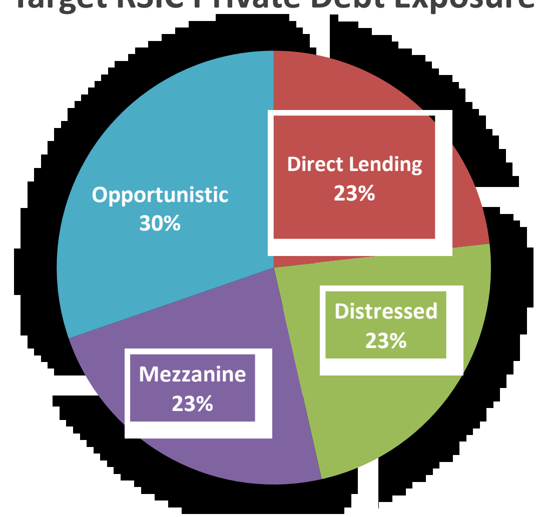
Current RSIC Private Debt Exposure



*Includes Energy and Other

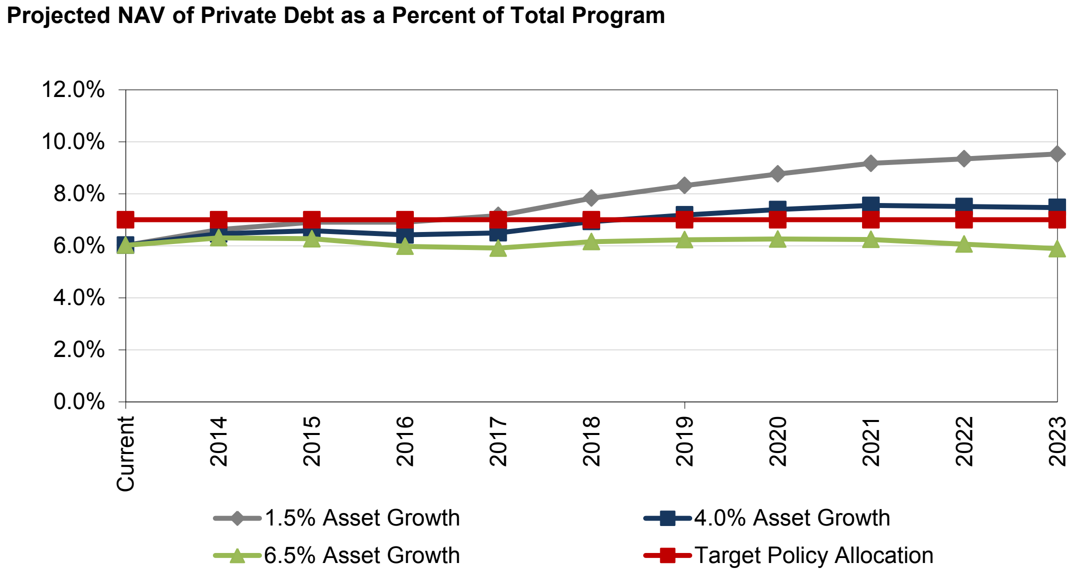
5 Year Plan

Target RSIC Private Debt Exposure



SC Retirement System Investment Commission

Private Debt Long-Term Investment Pacing



Annual Commitment Pace In $ Millions				
Year	FoF	Primary	Co-Invest	Total
2014	$ -	$ 495.0	$ 55.0	$ 550.0
2015	0.0	495.0	55.0	550.0
2016	0.0	495.0	55.0	550.0
2017	0.0	495.0	55.0	550.0
2018	0.0	540.0	60.0	600.0
2019	0.0	540.0	60.0	600.0
2020	0.0	540.0	60.0	600.0
2021	0.0	540.0	60.0	600.0
2022	0.0	630.0	70.0	700.0
2023	0.0	630.0	70.0	700.0
2024	0.0	630.0	70.0	700.0
Total	**$ -**	**$ 6,030.0**	**$ 670.0**	**$ 6,700.0**

Annual Commitment Pace (2014 – 2019)

Fund Commitments: $385 - $420 M/year

Opportunistic Accounts and Co-Investments: $165 - $180 M/year

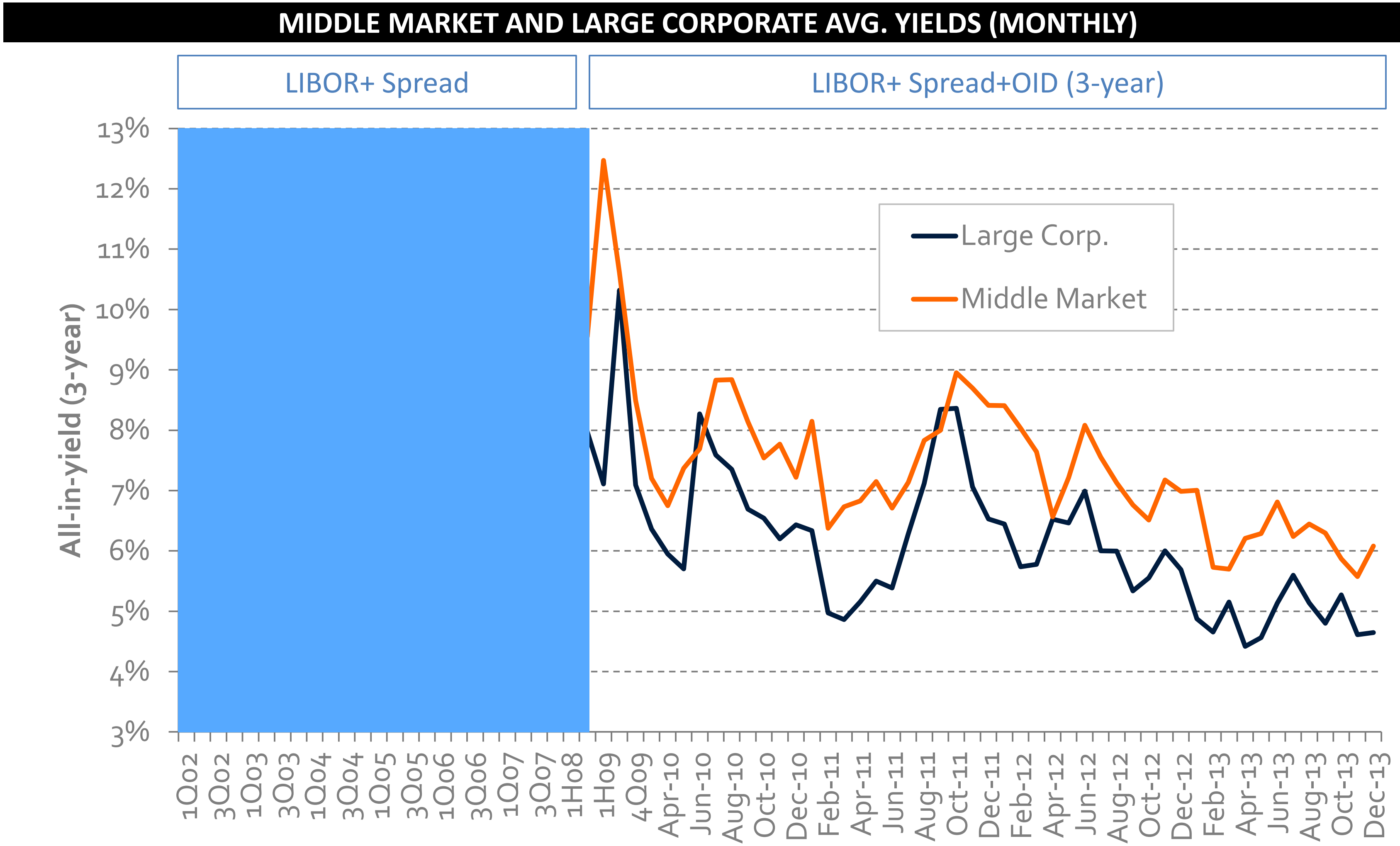
Total: $550 - $600 M/year

The portfolio is currently underweight to Private Debt (5.7% actual vs. 7.0% target)

Market Environment

- Regulatory constraints are limiting bank lending in the leveraged middle market sector
- Alternative lenders are raising capital to address the void
  - Direct lending funds raised by alternative lenders have proliferated
  - Publicly traded Business Development Corporations have tripled in size since 2009
- Direct lending offers the potential for:
  - Current income
  - Enhanced credit underwriting
  - Protection against rising interest rates
  - Seniority in the capital structure

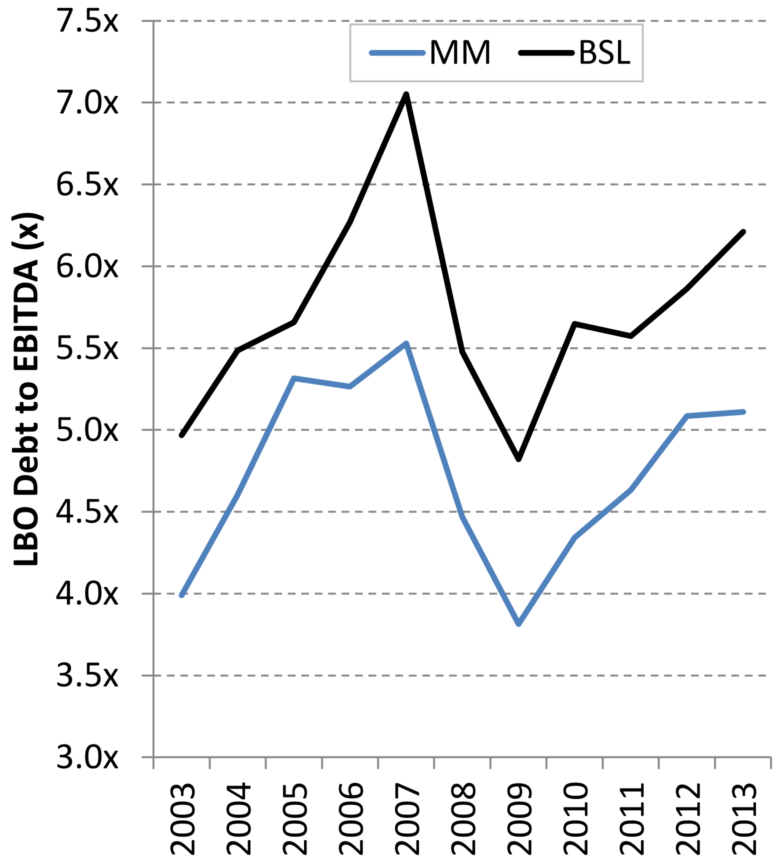
Historical Middle Market Yield Comparison



SOURCE: THOMSON REUTERS LPC

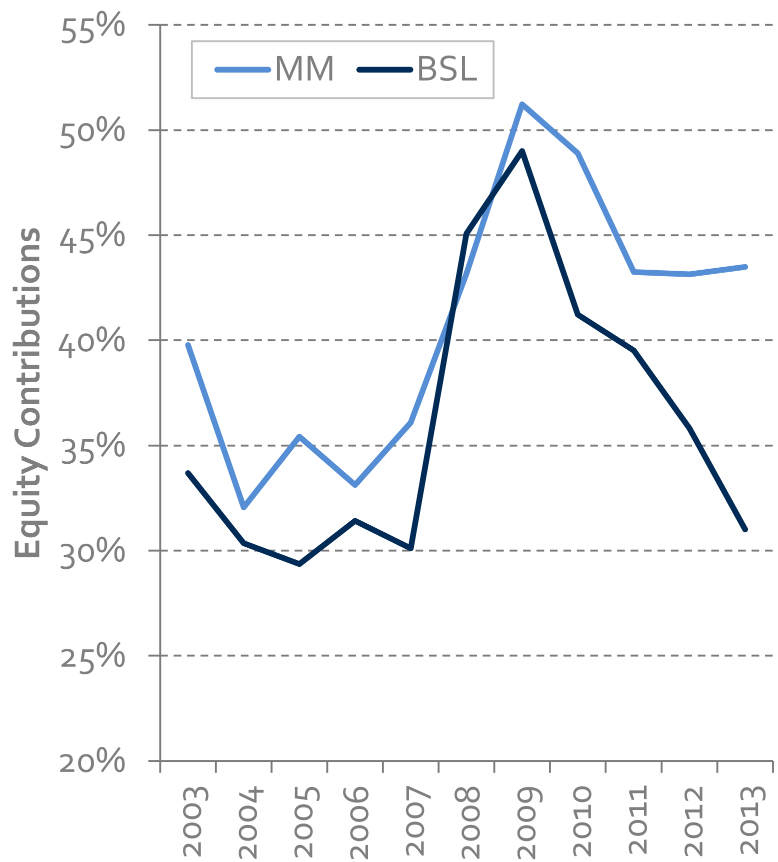
Middle Market Leverage Comparison

DEBT TO EBITDA: MM VS. BSL LBOs*



*Debt to EBITDA data for middle market institutional LBOs

EQUITY CONTRIBUTIONS: MM VS. BSL LBOs*



SOURCE: THOMSON REUTERS LPC

KKR Lending Partners II

- KKR
  - Established as a leveraged buyout firm in 1976
  - Over $100 billion AUM across public and private markets
  - $27 billion in credit strategies supported by 45 investment professionals
- Lending Partners II
  - Focus on:
    1. Senior secured, upper middle market corporate loans
    2. Sponsor-backed transactions
    3. High concentration in US companies

KKR Direct Lending Performance

- SMAs (2005-2011)
  - Forty loans and only one default; recovery at par
- Lending Partners I (2011-2014)
  - No defaults
  - 12.1% net IRR (14.9% gross)

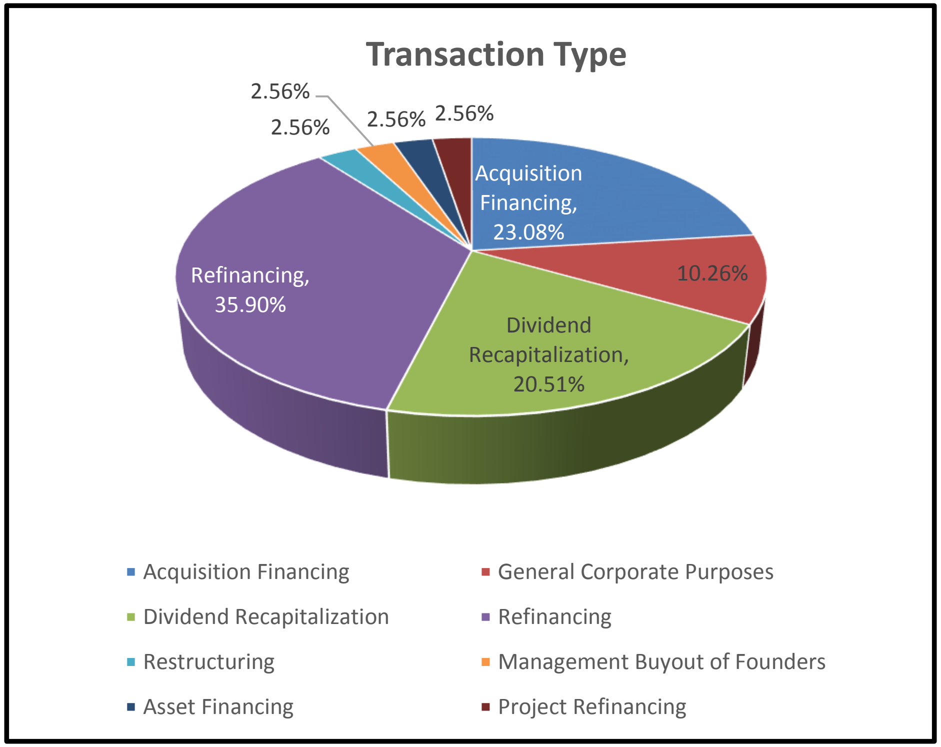
	Lending Partners I*	S&P LSTA All Loans Index*
Average Yield	8.7%	5.5%
Range of Yields (quarterly)	8.5% - 9.2%	4.7% - 6.7%

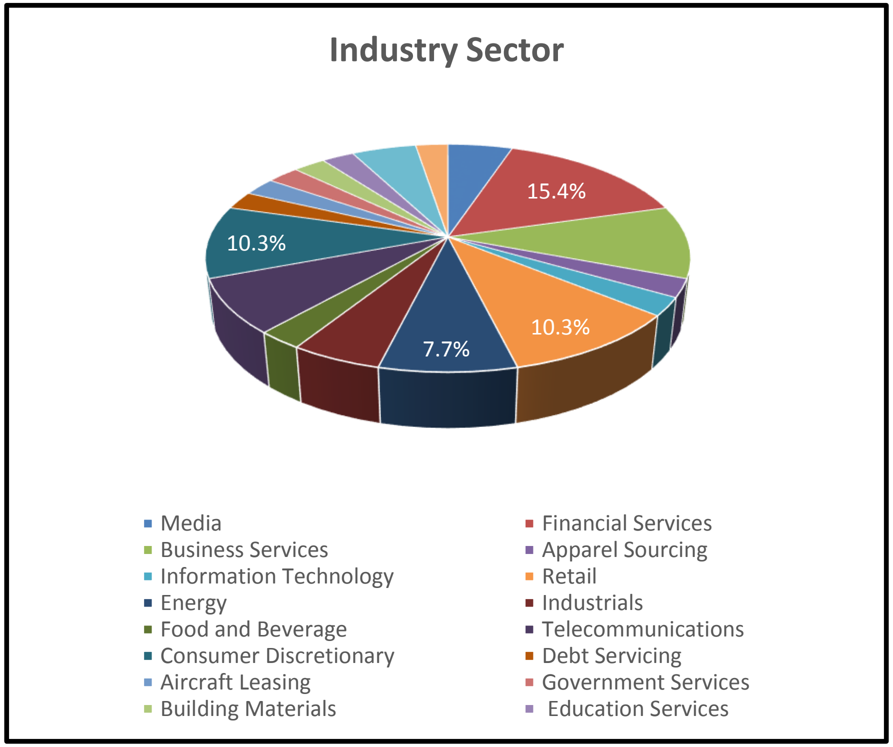
	MEDIAN	AVERAGE
% FLOATING		94.9
% FIRST LIEN		92.3
LTM EBITDA	$52,704,802	$88,419,443
TOTAL FIRST LIEN	$155,000,000	$195,974,906
TOTAL LEVERAGE	3.30	3.18
CAPITAL INVESTED	$40,000,000	$55,951,989
% OF OFFERING	47.0%	48.9%
COMMIT FEE/POINTS UP FRONT	2.2%	2.5%
LIBOR FLOOR	1.3%	1.2%
CASH COUPON SPREAD	6.6%	7.3%
TENOR	6 yrs	5.7 yrs

*4Q 2011 – 2Q 2014

Lending Partners I Portfolio

- Diversified portfolio of 39 loans across industry and transaction type
- 90% sponsor-supported transactions





SC Retirement System Investment Commission

Investment Rationale

- **Sourcing Capabilities**
  - Broad market reach
    - ➢ Diversification by industry and sponsor
  - Dedicated sourcing team of investment professionals
- **Downside Protection**
  - 100% allocation to secured loans (first or second lien); minimum allocation of 65% to first lien senior-secured loans
  - Focus on being lead lender
  - Upper end of middle market
  - Experience and resources to manage workout scenarios
- **Firm Commitment**
  - Material commitment of firm balance sheet and employee capital ($100 M/22% of Fund I; $78 M in Fund II)
  - Consistent with strategic direction of the firm

Investment Considerations

- **Limited Track Record**
  - First direct lending investment in 2005 but only one dedicated fund; executed in benign credit period
  - However, few alternative lending firms have an extensive track record
- **Use of Leverage**
  - Allowed to utilize leverage up to 2.5x, although target is lower
  - Common strategy in senior direct lending funds
  - Sensitivity analysis shows positive IRR until historic default scenario is reached (10.5% annual default rate over 3 years)

	Net IRR Sensitivity Analysis			
	Leverage (blended)			
Default Rate (%)		**1x**	**1.38x**	**2x**
	1.99	9.84%	11.46%	14.17%
	3.75	8.60%	10.18%	12.97%
	5.00	7.63%	9.18%	11.95%
	7.00	5.86%	7.19%	9.92%
	10.50	1.32%	0.65%	-

RSIC
SC Retirement System Investment Commission

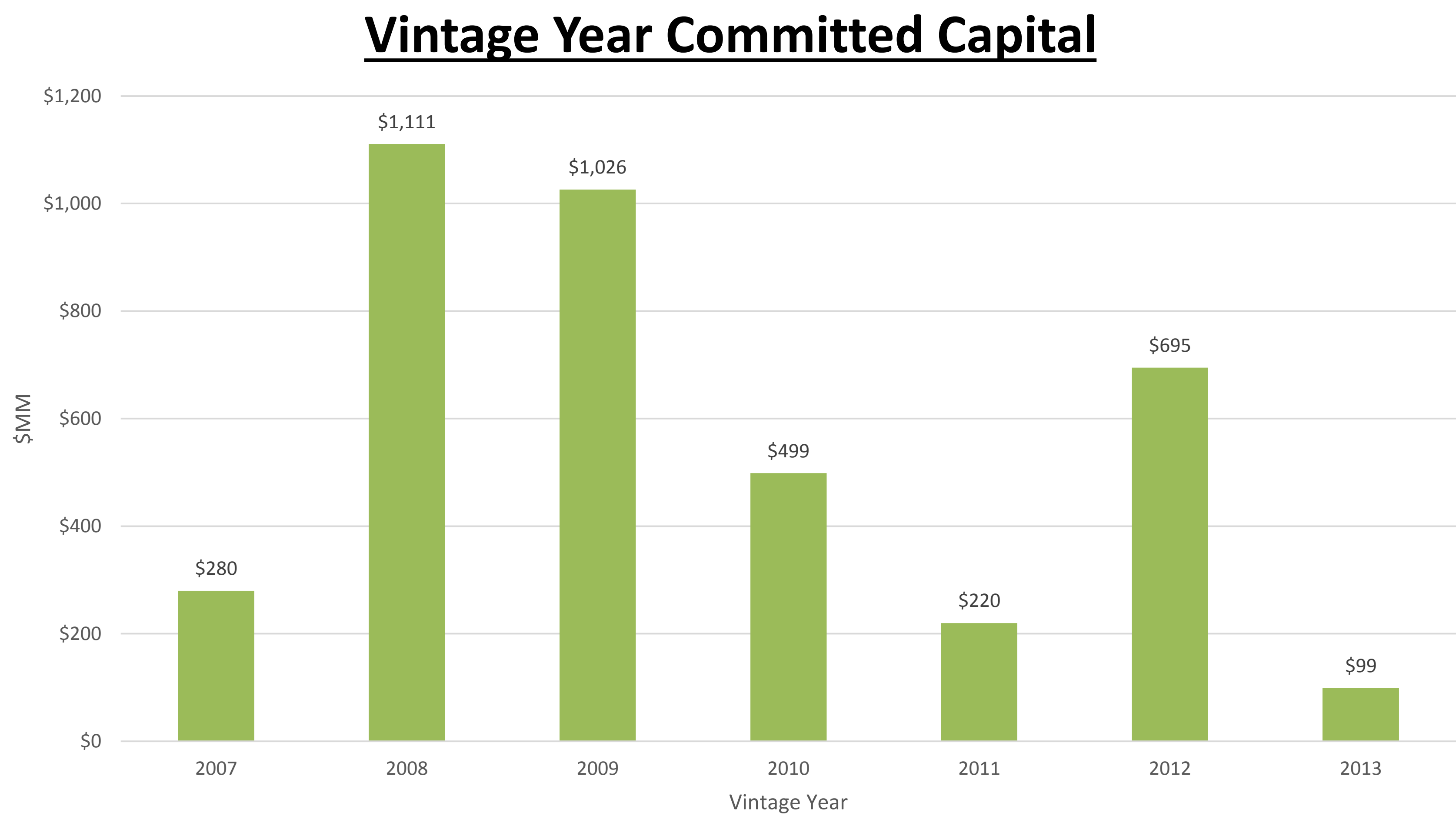
Economic and Fund Terms

- 1.25% mgmt fee on invested capital
- 15% carry; 8% preferred return and 100% catchup
- 100% offset of other fees*
- Quarterly income distributions
- 3-year investment period; up to 8-year fund life

*(excludes Capstone and RPM fees; not expected to be widely utilized)

Appendix

Historical Pacing

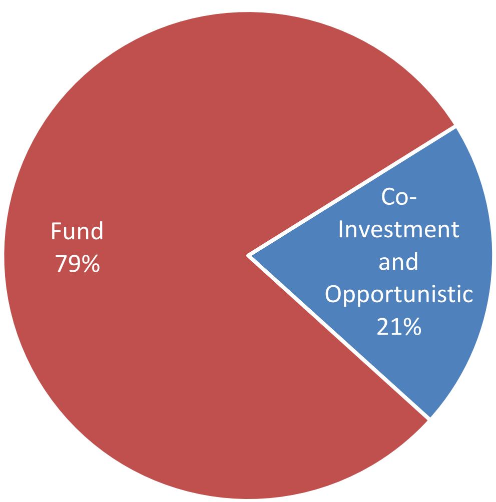


RSIC
SC Retirement System Investment Commission

5-Year Implementation Plan

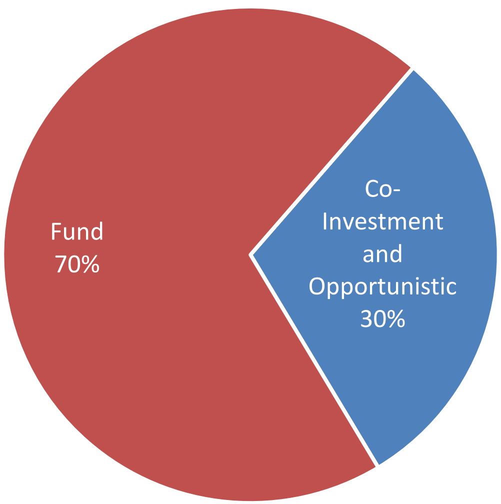
- Continue with current approach of accessing market primarily through funds (70%)
- Marginally increase allocation to co-investments and opportunistic strategies (30%)

Current Exposure by Structure



5 Year Plan

Target Exposure by Structure

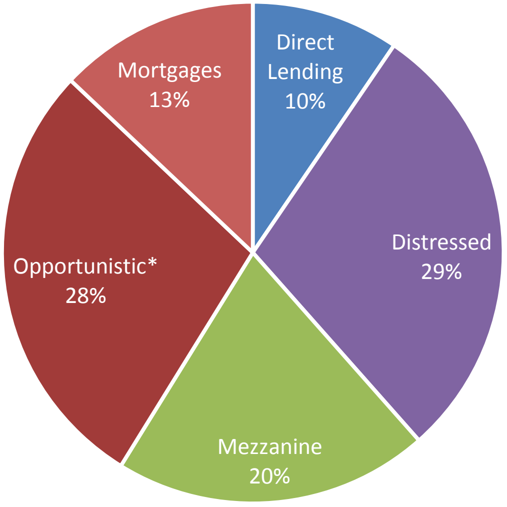


Overview

RSIC's Investment Objective:

1. **Goals:**
   - Continue to achieve outperformance of the benchmark through selection of best in class managers and opportunistic investments
   - Increase asset class to policy allocation target (7%)
2. **Execution:**
   - Re-establish Private Debt fund pipeline; balance commitments across strategies
   - Focus on larger allocations to high conviction managers
   - Achieve tactical shifts through co-investments and opportunistic accounts

Current RSIC Private Debt Exposure



*Includes Energy and Other

As of 12/31/2013
Includes undrawn commitments

SC Due Diligence Team:		
Adam Jordan, CAIA, Director of Private Debt Alexander Campbell, Investment Analyst ("Investment Team")		
Summary Terms Chart		
	Investment Officer Summary:	**Source Location:**
Manager Name:	KAM Fund Advisors LLC	LPA
Fund/Investment Name:	KKR Lending Partners II L.P.	LPA Recitals
Primary Custodian(s) or Safekeeping Agent(s) (together with point of contact information if other than BONY Mellon):	Mr. William (Will) Roberts Jr. JPMorgan Chase Bank William.g.robertsjr@jpmorgan.com +1 (800) 634-0879	Operational Due Diligence Questionnaire
RSIC Investment Size & Limitations (Commitment):	$125 million (represents capital commitment applied to investments; management fees would be additional at an estimated $1.56 million per year over 8 years, totaling roughly $12.5 million over the fund term)	
Management Fee:	1.25% on contributed capital (with commitment greater than $75 million)	LPA Exhibit B-2
Performance Fees/Carried Interest:	15% carried interest	LPA Section 5.2.1
Hurdle Rate/Preferred Return:	8% preferred return	LPA Section 5.2.1
Organizational Expenses:	Allocated in accordance with Percentage Interests; Capped at $4 million with any excess offsetting management fees	LPA Section 6.7.3 LPA Exhibit A & Exhibit B 3.1
Other Expenses/Fees:	Yes	LPA Section 6.7.1
Manager Commitment:	Minimum of $50 million	LPA Section 3.1.2
Anticipated Investment Period:	Three years after the First Closing Date May be extended with consent of Advisory Committee or majority of LPs	LPA Exhibit A
Anticipated Investment/Fund Term:	Six years after First Closing Date GP may extended by up to two one-year periods May also be extended with consent of Advisory Committee or majority of LPs	LPA Section 9.2.(b) LPA Section 9.7
Withdrawal Rights:	No Limited Partner will be entitled to withdraw except in accordance with Section 8.8 or Section 8.10 of the LPA	LPA Sections 8.6, 8.8, and 8.10
Placement Agent Used in Obtaining Investment by RSIC:	No	Placement Agent Disclosure Letter

AON Hewitt

InDetail

Global Investment Management

KKR Asset Management LLC ("KAM")

KKR Lending Partners II L.P. ("KKRLP II")

Review Date	Current Rating	Previous Rating
August 27, 2014	Buy	New Rating

Overall Rating

HEK has rated KKR Lending Partners II a 'Buy' to reflect the benefits of KKR's broad platform, value of KAM's unique origination effort, strength of the direct lending team's historical track record and attractiveness of the Fund's terms.

Component Ratings

	Rating	*Previous Rating*
Overall	**Buy**	*New Rating*
Business	3	*New Rating*
Staff	2	*New Rating*
Process	3	*New Rating*
Risk	2	*New Rating*
ODD	Pass	*New Rating*
Performance	3	*New Rating*
T&C	3	*New Rating*

Historical Performance as of June 30, 2014

Fund	Vintage Year	Fund Size ($MM)	Net TVPI	Gross IRR	Net IRR
KKR Lending Partners	2011	$460.2	1.1x	10.5%	12.1%
Pre-Fund Deals	2005	1,832.0	N/A	8.9%	N/A

Source: Manager.

Firm Summary

Head Office Location	New York, NY	**Parent Name**	Kohlberg Kravis Roberts & Co. L.P. ("KKR")
Firm AUM	$106.9 billion[1]	**Investment Staff**	300+

Portfolio Strategy Characteristics

Team Location	New York, San Francisco, London and Dublin	**Lead Manager**	Erik Falk and Chris Sheldon
Targeted EBITDA	>$25.0 million	**Ownership Target**	Control, Shared-Control or Influence of Tranche
Strategy Funds Raised	1 / $460.2 million[2]	**Strategy Inv. Staff**	80+
Target Geography	US 60% / Non-US 40%		

[1] KKR's Public Markets business, which includes KAM, manages $47.5 billion of assets of which $27.7 billion is associated directly with KAM.

[2] KAM has raised and/or invested $2,483.9 million for its direct lending strategy. Prior to KKR Lending Partners I, KAM invested $1,447.6 million in 39 direct lending deals across various SMAs. Post KKR Lending Partners I, KAM raised $576.2 million across three SMAs with limitations on leverage.

Specific Fund Characteristics

Fund Vintage	2014	**Target Fund Size**	$1.5 billion[3]
Commencement	June 2014	**Investment Period**	3 Years
Stage	Fundraising	**# Investments/Target**	40 – 80
Performance Objective	11% - 14% net IRR (levered)	**Expected Loss**	≤10% Invested Capital
Benchmark	Thomson ONE and/or a public market index (e.g., S&P LSTA LL Index)		
Fee Schedule	**Mgt. Fee:** 1.25%[4] per annum on invested capital **Preferred Return:** 8% **Carry:** 15%		

[3] KKRLP II has closed on $648.9 million through August 27, 2014. The initial close was held in June 2014, raising $305.6 million in commitments, while the second close was held in August 2014, raising $343.3 million.
[4] Management fee highlighted is for a "Reduced Fee Limited Partner" that can commit at least $75.0 million. The standard management fee is 1.50% per annum on invested capital.

Hewitt

Investment Manager Evaluation

Ratings Sheet		
Factor	**Rating**	**Comments**
Business	3	KKR is a global investment firm founded in 1976 by Jerome Kohlberg, Henry Kravis and George Roberts. KAM is a wholly owned subsidiary of KKR, a publicly traded company on the New York Stock Exchange (NYSE: KKR), with $30.8B of AUM. Approximately 40% of KKR's equity is publicly traded and approximately 60% is held by KKR and Capstone employees. To-date, KKRLP II has closed on $648.9MM with 4 out of 7 institutional investors from KKRLP I closed and expectations that 1 or 2 additional KKRLP I institutional investors will commit to the Fund. KKRLP I consisted of 56% institutional investors, 23% high net worth investors and 22% KKR balance sheet and employees. KAM employs an Operations Team with more than 50 professionals across the finance, tax and accounting fields.
Investment Staff	2	KKR's Direct Lending Team comprises approximately 80 dedicated credit investment professionals, including more than 40 investment professionals across the various credit strategies, 20 industry analysts, 8 credit specialists and more than 10 sourcing specialists. Chris Sheldon (joined in 2004) and Erik Falk (joined in 2008) lead the direct lending strategy. The Private Credit Investment Committee members average greater than 15 years of industry experience across KKR's Special Situations, Leveraged Credit and Mezzanine businesses. KKR's credit team has experienced a relatively high number of senior level departures (12) over the past 3 years. KKR utilizes one firm-wide compensation and incentive structure with a global carried interest pool that is discretionary and merit-based with decisions made by the Management Committee. The management fee and carried interest percentages are in-line with similarly leveraged strategies.
Investment Process	3	KAM employs a bottom-up, fundamental due diligence process with credits approved only once after undergoing a deep analysis. KKR is largely focused on originating deals through partnerships with financial sponsors – accounting for roughly 90% of deal flow. KKR's Direct Lending Team works with the dedicated sourcing specialists from KKR's Capital Solutions Group as well as KAM's industry analysts to identify investment opportunities. The Fund will focus on middle-market companies with EBITDA of $25MM or greater, which KKR believes gives it a scale advantage over most other private lenders. KKR is willing to participate in syndications from time to time as well as club deals where they have a deep knowledge of the credit.
Risk Management	2	A clear structural supply and demand imbalance exists for non-traditional providers of debt capital to lend to middle-market companies. All direct lending investments are approved by KAM's Private Credit Investment Committee. KKR's Capstone Group provides operational value add for portfolio companies that require assistance post-transaction. Each direct lending investment will be formally reviewed at least quarterly by KAM's Portfolio Management Committee. KKRLP II is seeking to raise $1,500.0 million of equity commitments, which would represent a greater than 300% increase in fund size relative to KKRLP I. The Fund expects to invest between $3,000.0MM and $3,500.0MM through the use of a leverage facility that is limited to no more than 2.5x debt-to-equity.

Factor	Rating	Comments
Operational Due Diligence	Pass	Operational infrastructure, procedures and controls have been reviewed and found to be in-line with industry standards.
Performance Analysis	3	The Fund is a successor to KKRLP I, KKR's first dedicated leveraged loan origination fund, which held a final close in 2011 raising $460.2 million of equity and generating a 12.1% net IRR for LPs as of June 30, 2014. Prior to the launch of KKRLP I, the team invested in direct lending transactions primarily through KAM specially managed accounts ("SMAs") over the period from 2005 to 2011. All but a single deal of the 74 transactions in KKR's direct lending track record have generated gains for KKR. The team has realized approximately 60% of the deals, generating a gross IRR of 9.2% with zero credit defaults, while the unrealized deals have generated a gross IRR of 9.6%.
Terms & Conditions	3	KKR is offering a reduced fee equal to 1.25% per annum of the weighted average of the cost basis of invested capital for LPs that commit at least $75MM to the Fund. KKR is targeting to commit up to $50MM (or 3.3%) to the Fund. The Fund includes a Key Man clause; however, we find the term to be relatively weak. Overall, we consider the Fund's terms to be investor-friendly; however, there is language associated with KKR's fiduciary liability that have raised questions among some investors.
Overall Rating	**Buy**	HEK has rated KKR Lending Partners II a 'Buy' to reflect the benefits of KKR's broad platform, value of KAM's unique origination effort, strength of the direct lending team's historical track record and attractiveness of the Fund's terms.

CONTENT

(This page left blank intentionally)

AON Hewitt

Investment Evaluation

Fund Overview

Kohlberg Kravis Roberts & Co. L.P. ("KKR" or the "Firm") is forming KKR Lending Partners II L.P. ("KKRLP II" or the "Fund") to generate current income, but with a focus on principal protection. The Fund will seek to invest primarily in originated senior debt issued by companies typically with EBITDA of $25.0 million or greater. KKRLP II is designed to capitalize on the attractive fundamentals that KKR sees in the middle-market for secured lending transactions (or direct lending). The Fund is targeting the senior debt tranche, primarily 1st lien and 2nd lien, of middle-market companies that offer attractive contractual yields and risk-adjusted returns relative to the broadly syndicated debt markets. KKRLP II is being established as the successor fund to KKR Lending Partners L.P. ("KKRLP I"), a dedicated direct lending vehicle launched in 2011, which will complete its investment period in December 2014.

Investment Merits

- **<u>Attractive Market Opportunity</u>** – Prior to the global financial crisis in 2008, traditional capital providers consisted of banks (national and regional), specialty finance companies (e.g., business development company ("BDC"), collateralized loan obligation ("CLO") vehicles, investment banks (through a proprietary trading desk) and hedge funds. Today, very few of the specialty finance companies remain active lenders as the effect of deleveraging in the market led to significant losses across their loan portfolios and forced a number of BDCs to shutter their business. New financial regulations have reduced the ability for investment banks to continue to provide debt capital to middle-market companies, while also making it more expensive for national and regional banks to continue their lending practices. A clear structural supply and demand imbalance exists for non-traditional providers of debt capital to lend to middle-market companies.
- **<u>Unique Origination Effort</u>** – The origination effort at KAM targets direct lending opportunities through various channels, including financial sponsors, advisors/intermediaries, banks and directly from borrowers. The Firm has a dedicated sourcing team, the Capital Solutions Group ("CSG"), that focuses on financial sponsor and intermediary coverage. Investment opportunities may also be identified from KAM industry analysts, the private markets teams and/or KAM's direct relationships with financial intermediaries, such as advisors or banks. Finally, KAM's portfolio managers and senior investment professionals will actively seek to leverage the relationships of the entire KKR global network in originating deal flow for the Fund.
- **<u>Strong Track Record</u>** – KKRLP I was formed in November 2011 and has generated very strong returns for investors to-date. As of June 30, 2014, KKRLP I reported a net IRR (levered) of 12.1% on $1,110.0 million of invested capital across 35 transactions. KKRLP I was funded with $460.2 million of equity commitments and is conservatively levered at approximately 1.1x debt-to-equity, which equates to having borrowed approximately $499.6 million from the leverage facility.

Investment Concerns

- **<u>Weak Alignment of Interest</u>** – KKR is a global investment firm that provides investors with access to numerous strategies across multiple asset classes. As the Firm evolved over its 38-year history, its ownership structure has changed significantly. Today, KAM is structured as a wholly-owned subsidiary of KKR, which is publicly listed with 40% of the equity held by the public and the remaining 60% is held by KKR Holdings, Inc. (a privately held vehicle consisting principally of KKR and Capstone employees. HEK would prefer to see the business 100% employee-owned and that members of the Direct Lending team have a significant stake in the

AON Hewitt

ownership. In addition, we prefer that a majority (if not all) of the carried interest generated from KKRLP I and KKRLP II remain with the Direct Lending team as an incentive for retention purposes. KKR has created a compensation and incentive program where 100% of the carried interest generated from all funds across their global platform is pooled together for discretionary, merit-based decisions made by the Management Committee. The lack of a direct alignment between the investors and the Direct Lending team members is a concern.

  - Mitigating Fact(s): While the standard metrics for determining alignment of interest are lacking in this situation, we are satisfied that Co-Heads of Direct Lending (Erik Falk and Chris Sheldon) are reasonably compensated and they have no plans to depart the Firm in the near future. Despite not having a direct carried interest allocation for the Direct Lending team, each of the members is eligible to receive carried interest through the global carried interest pool. Also, it is our understanding that senior members of KAM have access to equity ownership through KKR Holdings, Inc.

- **Significant Level of Turnover** – Within the past four years, KAM has experienced eleven departures and one internal transfer. Prior to the Avoca acquisition, the credit team consisted of more than 40 investment professionals (including approximately 20 members who make up the industry analysts pool). This level of turnover, which equates to approximately 25% of the pre-Avoca credit team, is significant and concerning.
  - Mitigating Fact(s): While the number of departures from KAM is significant, it is important to know that four of the departures were full-time members of the Special Situations or Mezzanine teams. In addition, four of the departures were full-time members of the industry research analyst pool. In fact, when we review the list of departures there are no full-time members of the direct lending team that have departed within recent history.
- **Significant Increase in Fund Size Target** – KKRLP II is seeking to raise $1,500.0 million of equity commitments, which would represent a greater than 300% increase in fund size relative to KKRLP I ($460.2 million). As of June 30, 2014, KKRLP I has invested approximately $1,110.0 million as a result of recycling capital and the use of a leverage facility. KKRLP II is expected to invest between $3,000.0 million and $3,500.0 million through the use of a leverage facility that is limited to no more than 2.5x debt-to-equity.
  - Mitigating Fact(s): The KAM investment team has indicated their intention is to lever KKRLP II at a 1.5x to 2.0x debt-to-equity ratio, based on current market conditions. While leverage incorporates additional risks for the Fund, KAM will seek to be in the most senior secured position of the capital structure in the companies to whom they lend to offset some of the risk. Also, it is important to note that KAM has never experienced a default on any of its direct lending deals.

Recommendation

Based on discussions with members of the KKR Direct Lending Team, reference calls and a detailed review of all documentation provided by the manager with regards to the Fund and the Firm, HEK believes that KKR is capable of successfully implementing the stated investment strategy for KKR Lending Partners II L.P. We recommend clients seeking a direct lending strategy consider the Fund.

Manager Profile

Firm Overview

KKR is a global investment firm founded in 1976 by Jerome Kohlberg, Henry Kravis and George Roberts. The Firm was focused solely on generalist private equity investing during its first two decades in business. In 2000, KKR reorganized its investment professionals into industry teams and began building out a team with operational skills through the hiring of former CEOs and CFOs. Since then, the Firm has maintained an industry-centric and operational approach to building value in its portfolio companies. Today, the Firm employs over 1,000 employees and over 550 executives located in offices in New York, Menlo Park, San Francisco, Houston, Washington, D.C., Louisville, Calgary, London, Paris, Madrid, Seoul, Hong Kong, Beijing, Tokyo, Singapore, Sydney, Mumbai, Riyadh, Dubai and São Paulo, including approximately 50 KKR Capstone operational professionals. KKR operates three primary business lines, including Private Markets, Public Markets and Capital Markets.

KKR's Private Markets business consists of the private equity investment teams, which includes investment professionals focused on dedicated real estate, energy and infrastructure strategies. The private equity team has invested across 250 transactions with an aggregate value of over $490 billion. Globally, the Firm employs approximately 180 private markets investment professionals arranged into eight industry teams: Consumer Products, Energy and Infrastructure, Financial Services, Healthcare, Industrials, Media and Communications, Retail, and Technology. The Firm's Energy and Infrastructure team is focused solely on identifying, evaluating and executing on opportunities in the energy and infrastructure sectors for the Firm's private equity funds and natural resources and infrastructure platforms. The Firm's Real Estate team focuses on opportunities including property-level equity, debt and special situations transactions and businesses with significant real estate holdings. As of March 31, 2014, the Private Markets business managed $60.5 billion of assets.

KKR's Public Markets business consists of KKR Asset Management and KKR Prisma Capital Partners LP ("KKR Prisma"). KAM was launched in 2004 to focus on below-investment grade credit strategies, including corporate debt, structured credit, high yield, mezzanine and special situations investments. Through 2008, the majority of KAM's investments and credit exposure was managed through KKR Financial Holdings LLC, a specialty finance vehicle listed on the New York Stock Exchange (NYSE: KFN) and various collateralized loan obligation ("CLO") vehicles. KAM expanded its focus to include long/short public equity (2011) and long/short credit (2012) strategies. In February 2014, KKR completed the acquisition of Avoca Capital, a European credit investment manager with approximately €6.0 billion (or $8.2 billion) of assets under management. KKR Prisma is KKR's global hedge fund of funds platform, focused on identifying specialist hedge fund managers and creating custom hedge fund solutions for clients. As of March 31, 2014, the Public Markets business managed $41.8 billion of assets of which $30.8 billion[5] is associated directly with KAM.

KKR's Capital Markets business is established under KKR Capital Markets LLC, a registered broker-dealer. KKR Capital Markets was established to provide the Firm with a capital markets-oriented perspective on deal financings and portfolio company capital structure management. In addition, KKR Capital Markets gives the Firm the ability to add value by providing insight and direct access to financing sources that improve the capital structures of KKR's portfolio companies. Since 2009, the global team of more than 40 professionals has assisted with the refinance of approximately $214.0 billion of debt.

Business Model

- KAM is a wholly owned subsidiary of Kohlberg Kravis Roberts & Co. L.P., an affiliate of KKR & Co. L.P., a publicly traded company on the New York Stock Exchange (NYSE: KKR). As of March 31, 2014, approximately 40% of KKR's equity was publicly

[5] KAM's total assets under management includes Avoca Capital's $8.2 billion of assets.

traded, and approximately 60% was held by KKR Holdings L.P., a privately held vehicle consisting principally of KKR and Capstone employees.

- KAM has historically focused on managing below-investment-grade credit, mezzanine and special situations strategies and with the addition of Avoca now has an even greater presence in below-investment-grade credit in both North America and Europe. The acquisition represents an expansion of KKR's existing credit business in the growing European public credit market; a market that KKR believes offers attractive opportunities given the ongoing European bank deleveraging. Both KKR and Avoca will be able to leverage each other's network and idea flow to broaden their investment capabilities and ultimately increase European deal flow.

Competitive Landscape

There are a number of competitors in the direct lending space that include, but are not limited to, the managers listed below:

- Brightwood Capital Advisors
- H.I.G. Capital
- Goldman Sachs Asset Management
- Intermediate Capital Group
- Stellus Capital Management (D.E. Shaw)
- Crescent Capital Group
- Highbridge Principal Strategies (JPMorgan)
- Kayne Anderson Capital Advisors (Dymas Capital)
- NXT Capital (Merrill Lynch Capital)
- Sankaty Advisors
- TIG Advisors (Czech Asset Management)
- Tennenbaum Capital Partners

Client Base

KKRLP II has closed on $648.9 million through August 27, 2014. KKR has indicated that the institutional investor re-up rate from KKRLP I investors currently stands at approximately 43%, but the expectation is that an additional institutional investor from KKRLP I will commit at the next close to bring the rate up to approximately 60%.

KKRLP I exhibited a broad mix of investors, including:

- Family Offices – 8.1%
- Pension Funds (Public) – 27.7%
- High Net Worth Investors – 22.6%
- Fund of Funds – 4.8%
- KKR Employees – 6.6%
- Pension Funds (Corporate) – 14.1%
- Endowment & Foundations – 0.9%
- KKR Balance Sheet – 15.2%

AON Hewitt

Investment Staff

KAM employs approximately 90 investment professionals, approximately 80 of which are focused on KKR's credit strategies. Over 20 members of the team are industry analysts who are dedicated to identifying opportunities in their respective sectors. In leveraged credit, each industry analyst typically covers one to three industry sectors and is responsible for making buy and sell investment recommendations to the KAM Leveraged Credit and Private Credit Investment Committees. In addition, KAM has a strong support team of legal, finance, tax, accounting, human resources, IT and administrative staff as well as access to the broader KKR platform.

KKR's direct lending investment team currently comprises approximately 80 dedicated credit investment professionals located in New York, San Francisco, London and Dublin. Erik Falk and Christopher Sheldon currently lead the team as the portfolio managers for the direct lending strategy.

Key Staff	Position	Years w/ Firm / Years of Experience	Background
Erik A. Falk	Member, Portfolio Manager, Co-Head of Leveraged Credit	6 / 22	• MD/Global Co-Head Securitized Products Group, Deutsche Bank Securities, Inc. • Global Head Special Situations Group, Deutsche Bank Securities, Inc. • Director, Credit Suisse First Boston
Christopher A. Sheldon	Member, Portfolio Manager, Co-Head of Leveraged Credit	10 / 15	• VP/Sr. Investment Analyst, High Yield Securities Group, Wells Fargo • Young & Rubicam Advertising • SFM Media Corp.
Nathaniel M. Zilkha	Co-Head of Credit, Co-Head of Special Situations	7 / 15	• Member Principal Investment Area, Goldman Sachs & Co.
J. Marc Ciancimino	Head of European Private Credit	6 / 17	• MD European Mezzanine, GSC Group • Assoc. Director, Prudential • Leveraged Finance Group, Bankers Trust
Jeremiah Lane	Co-Head of US Credit Research	9 / 11	• Assoc. Investment Banking/Technology, Media, and Telecom Group, J.P. Morgan Chase
Blaine MacDougald	Co-Head of US Credit Research	3 / --	• VP Credit Opportunities Group, D.E. Shaw
Jamie Weinstein	Co-Head of Special Situations	9 / 14	• Strategy Consultant, The Boston Consulting Group • Director Acquisitions, Tishman Speyer Properties
John Reed	Head of Credit Trading	6 / 17	• Director, Bear Stearns & Co. • Analyst Syndicated Loan,

			Private Placements and HY Groups, BNY Capital Markets • The Office of Management & Budget of New York City
Dev Gopalan	Director, Head of US Private Credit	4 / --	• Principal Private Investments and Private Debt, Canada Pension Plan Investment Board • Barclays Capital • Goldman Sachs • JP Morgan Chase
Harlan Cherniak	Director	1 / --	• Sr. Investment Prof., Venor Capital Management • Longacre • JLL Partners • Credit Suisse
Sharath Reddy	Director	1 / --	• Principal, Redwood Capital Management
Jamie Ely	Principal	10 / --	• N/A
Zachary Jarvis	Principal	6 / --	• Partner ABS Trading Group, Peloton Partners LLP • Credit Derivatives Quantitative Research Team, BNP Paribas
Mayo Shattuck	Principal	6 / --	• Industrials and Natural Resources Groups, Goldman, Sachs & Co.
Michelle Domanico	Principal	4 / --	• Leveraged Finance and Financial Sponsors Group, UBS Investment Bank
James Newman	Director	1 / --	• Director Institutional Fixed Income Sales Division, JPMorgan • Analyst Credit Sales Group, Dresdner Bank
Andrew Cates	Principal	4 / --	• Associate Distressed Debt Group, Bank of America Merrill Lynch
Lynette Vanderwarker	Managing Director	2 / --	• MD Fixed Income Strategy Group, BlackRock • VP Global Manager Strategies Group, Goldman Sachs Asset Management
Christina Fang	Principal	4 / --	• Analyst Fixed Income Institutional Sales & Trading, Morgan Stanley

Staff Turnover

The KKR Credit Team has experienced the following departures since 2011.

Members

AON Hewitt

- William Sonneborn – Head of KKR Credit (10/2013)
- Fred Goltz – KKR Credit (12/2012)

Directors

- Allan Toole – Portfolio Analytics (8/2011)
- Jessica Beattie – Special Situations (4/2012)
- Lee Stern – Mezzanine (4/2012)
- Nat Yap – Investment Analyst (4/2014)
- Matt King – Portfolio Operations (8/2011)

Principals

- Evan Geller – Investment Analyst (1/2012)
- Pradeep Hathiramani – Investment Analyst (12/2012)
- Alex Ramsay – Special Situations (5/2013)
- Kevin Koslosky – Special Situations (10/2013)
- Andrew White – Investment Analyst (4/2014)

Compensation

KKR operates with one firm-wide compensation and incentive structure based on a global profit and loss statement. Each of KKR's senior executives receives a base salary and is eligible for a cash bonus and equity compensation, as well as additional incentives including "dollars at work" in KKR fund investments. The cash bonus, equity compensation, and "dollars at work" are discretionary, and "dollars at work" and equity awards are typically subject to a vesting period of several years.

All final compensation and other long-term incentive award decisions are made by the Management Committee based on input from managers. Compensation and other incentives are not formulaic, but rather judgment and merit driven, and are determined based on a combination of: overall Firm performance, individual contribution and performance, business unit performance, and relevant market and competitive compensation practices for the various business units and the individual roles/responsibilities within each of those business units.

KKR maintains the flexibility to annually adjust carry allocated to professionals to reflect changes in position and contribution to fund performance.

Litigation[6]

From time to time, KKR is involved in various legal proceedings, lawsuits and claims incidental to the conduct of KKR's business. KKR's business is also subject to extensive regulation, which may result in regulatory proceedings against it. In addition, KKR is and expects to continue to become, from time to time, subject to examinations, inquiries and investigations by various U.S. and non-U.S. governmental and regulatory agencies. KKR & Co. L.P. (NYSE: KKR) is the holding company for the KKR businesses, and as a public company, KKR & Co. L.P. reports all such matters that are material to KKR in its regulatory disclosure filings with the U.S. Securities and Exchange Commission, which are available at www.sec.gov.

KKR issued a supplemental disclosure to potential investors dated August 7, 2014 that

[6] Based on information provided by the General Partner which has not been independently verified by Hewitt EnnisKnupp or by any law firms.

highlighted several ongoing legal proceedings.

References	HEK investigated the quality and reputation of the Direct Lending team through multiple reference calls to portfolio company executives, financial sponsors and limited partners. The overall tone of the reference calls was extremely positive, particularly with regards to financial sponsors’ willingness to work with the KKR Direct Lending Team.

AON Hewitt

Strategy & Risk Management

Investment Approach

There are many types of transactions for which direct lending capital may be used. KKRLP II generally expects to invest in transactions providing debt capital in connection with the following types of corporate activities:

- Private Equity / Sponsor-Driven Buyouts
- Refinancings
- Capital Expenditures / Growth
- Mergers and Acquisitions
- General Corporate Purposes
- Sponsor Dividends

In each of the above categories, the Investment Team will remain focused on the relative risk-return profile of each individual direct lending transaction and overall portfolio diversification.

Expected Portfolio Composition

The majority of the private debt investments KKRLP II will seek to make will be in the most senior tranches in a company's capital structure. Most senior secured tranches in which the Fund will invest are expected to be acquired solely by the Fund and other KKR funds and accounts or by the Fund and other KKR funds and accounts and a small number of other investors through "club" transactions.

Investment Process

Origination

KKR is largely focused on originating deals through partnerships with financial sponsors. The manager anticipates that roughly 90% of deals will be originated through a financial sponsor relationship. The Direct Lending Team seeks to understand the goals of borrowers and will structure an appropriate financing solution that is tailored to meet their objectives. The Team utilizes the breadth of KKR's Credit and Capital Markets platforms to research and create opportunities where it may provide a "one-stop" solution for a company's entire debt capital structure. In addition to being able to provide senior secured financing through its direct lending platform, KKR is able to assist borrowers with other parts of their capital structures. Subject to compliance with various conflicts policies, other KKR investment vehicles or capital arranged by the Capital Markets platform may be utilized in a deal. This flexibility provides a competitive advantage in sourcing as it creates a wider funnel for originating attractive investment opportunities.

KKR has a dedicated sourcing team of approximately 15 executives with primary coverage and sourcing responsibility for private credit investments. This team works in conjunction with KAM investment professionals to cover financial sponsors, banks, advisors/intermediaries and operating companies. KKR's global network, which includes relationships of KKR's private equity, energy and real estate teams, KKR Capstone operating consultants, KKR Senior Advisors and portfolio company executives, also provides a valuable sourcing network for originating deals. Once an investment opportunity is sourced, KKR begins the investment due diligence and structuring process.

Underwriting

KAM has been investing in the credit markets since 2004 and is led by professionals with many years of experience in investing and managing large pools of capital, in both the debt and equity capital markets. KAM has a significant credit infrastructure of over 40 dedicated credit investment professionals who currently manage credit investments across a variety of industries and capital structures. This platform allows for intensive due diligence to filter investment opportunities and make relative value judgments.

For each credit, KAM employs a bottom-up, fundamental due diligence process. A credit is approved only once it has undergone a deep analysis and the Private Credit Investment Committee believes KKR has a competitive advantage via sourcing, analysis or diligence findings. The same extensive KKR network that is leveraged for investment sourcing ideas is leveraged in the credit underwriting process, including access to expertise of the Private Markets investment professionals and KKR Capital Markets.

Monitoring

Capital preservation is the primary focus of KAM's approach to managing credit assets, including its originated loan investments. Each direct lending investment will be formally reviewed at least quarterly by KAM's Portfolio Management Committee. The Portfolio Management Committee is responsible for the oversight and review of the Fund's investment process including reviewing the performance of investments and monitoring portfolio level risks and exposures.

KAM has the ability to leverage the resources at KKR Capital Markets to help a company optimize its entire capital structure and maximize financing efficiency. If a Fund investment shows signs of credit deterioration through adverse operational developments, KAM has the ability to leverage the operational expertise of the approximately 50-person team at KKR Capstone to assist the company in implementing operational improvements. KAM may also leverage the restructuring expertise of the Firm's special situations team. KAM can also seek to leverage the knowledge of senior management teams at KKR's private equity portfolio companies. All together, the broad KKR platform differentiates KAM from other lenders in the market.

Risk Management

The Firm maintains a conservative approach to risk management that incorporates management of the following key risks: (i) reputational risk; (ii) operational risk; (iii) key man risk; (iv) client liquidity risk; (v) portfolio credit risk; (vi) counterparty risk; (vii) legal and regulatory risk; (viii) and market risk. Risk management for the Firm is the responsibility of its Co-Chief Executive Officers and Chief Financial Officer. Risk management activities involve the participation of professionals across several support functions across the Firm, including Legal/Compliance, Internal Audit, Tax and Accounting. The general principles of the Firm's risk management consist of the following:

- All risk management activity will be aligned with the reputation and standing of the Firm and its clients.
- Risk analysis is part of strategic planning, business planning and investment procedures.
- Risk management is founded on a risk-based approach to internal control which is embedded in the day-to-day operations of the Firm.
- Professionals at all levels will have a responsibility to identify, evaluate and manage or report risks, and will be equipped to do so.
- The Firm fosters a culture which provides for spreading best practices, lessons learned and expertise acquired from risk management activities across the Firm for the benefit of the entire Firm.

The Firm's approach to managing specific risks consists of the following:

- Risk management should be proactive and reasoned. Risks should be identified, objectively assessed, and, where this is the appropriate response, actively managed.

- The aim of risk management is to anticipate, and where possible, avoid risks rather than dealing with their consequences. However, for some key areas where the likelihood of a risk occurring is relatively small, but the impact on the Firm is high, the Firm covers the risk by developing contingency plans (i.e., Business Continuity Plan). This allows the Firm to mitigate the negative effect of unlikely events which might occur.
- Policies and procedures with respect to specific risks are maintained, including policies pertaining to trade allocations, valuation conflicts mitigation and cross-transactions.
- Responsibilities for managing risk are discharged to all professionals and specific functional professionals oversee risk management activities, depending on the nature of the risk.

The Audit Committee of the Board of Directors of the general partner of KKR & Co. L.P. (NYSE: KKR) regularly reviews the Firm's risks and provides oversight to the activities of management's risk committee. Non-market-related items are the responsibility of a number of professionals across business operations, including KKR's General Counsel, Chief Financial Officer, Head of Public Affairs, etc. Attilio Meucci serves as the Firm's Chief Risk Officer and is ultimately responsible for all market-related risks as well as regulatory risks as they relate to the markets. Mr. Meucci is supported by 5 core risk management professionals and expects to hire one more individual soon. Additionally, the team is further supported by 5 individuals from Avoca Capital, KKR Prisma, and NBFC India.

As Chief Risk Officer, Mr. Meucci:

- Oversees risk management for our public market investments, private market investments and capital market activities
- Brings a creative and impactful approach to the management of market risk for the broader Firm, such as balance sheet investments, portfolio construction, capital allocation, etc.
- Collaborates with the Global Macro team and others to bring increased awareness and focus on macro trends and exposures in our various portfolios

The KAM Risk Committee is responsible for identifying key risks to the KAM Funds and/or other clients' portfolios, investment strategies as well as the Firm and to categorize and prioritize those risks in order to ensure the proper focus is given to the identified risks. The KAM Committee consists of the Head of Asset Management and Capital Markets, Head of Credit Strategies, Co-Head of Hedge Funds, KAM's Chief Financial Officer, KAM's General Counsel, KKR's Global Head of Tax, Portfolio Management Operations and a Risk & Analytics team member. From time to time other participants representing cross functional business areas, including Portfolio Management and Finance, may join for presentation purposes, as appropriate.

Operational Due Diligence

KKR has a dedicated in-house team of executives and other employees that perform fund administration services. As of June 30, 2014, the Firm has approximately 300 dedicated Legal and Compliance, HR, IT and Finance, Tax and Accounting professionals, which are a shared resource throughout the Firm. For Specially Managed Accounts (SMAs), fund administration is done by an outside administrator (e.g., State Street).

KAM's Finance, Tax and Accounting team has approximately 50 employees. Responsibilities are divided among operational lines (e.g., treasury functions related to trade settlements), general ledger account maintenance, financial reporting (e.g., partner capital statements, fund financial statements), tax reporting and compliance with regulatory requirements (e.g., adherence to registered adviser standards).

- William Janetschek is KKR's Chief Financial Officer, having joined KKR in 1997. Mr. Janetschek is also a member of KKR's Valuation Committee, Balance Sheet Committee and the Firm's Risk Committee. Prior to joining KKR, he was a Tax Partner at Deloitte & Touche LLP.
- Michael R. McFerran is KAM's Chief Financial Officer and KFN's Chief Operating Officer, having joined KKR in June 2005. Prior to joining KKR, Mr. McFerran spent the majority of his career at Ernst & Young in their financial services practice where he specialized in providing assurance and consulting services to a diverse mix of financial services firms. Additionally, prior to joining KKR, Mr. McFerran held Vice President positions at both XL Capital Ltd. and American Express.

KKR's Legal/Compliance Group is currently comprised of over 30 executives dedicated solely or in part to compliance. KKR's Legal/Compliance Group maintains integration with other legal personnel within KKR, including the Firm's Global General Counsel, involved with product development and other internal developments, as well as through regular contact with management. KAM has a dedicated General Counsel (Nicole Macarchuk) and a Chief Compliance Officer (Annette O'Donnell-Butner).

Deloitte & Touche serves as auditor to KKR & Co. L.P. Deloitte & Touche will serve as KKR Lending Partners II L.P. auditor and has served as auditor to the predecessor fund. Deloitte & Touche has been the Firm's auditor since the early 1980's. To date, KKR has not received a qualified or adverse opinion as a result of an audit.

KAM has adopted the following policies and procedures for the valuation of investments held by each fund or account managed by the Firm and its investment advisory subsidiaries (each, a "Client"). These policies and procedures are intended to ensure such investments are valued and carried in a manner consistent with accounting principles generally accepted in the United States ("GAAP").

- Financial instruments are valued at "fair value" in accordance with US GAAP. Instruments are valued, at a minimum, quarterly based on the Fair Value Hierarchy established by ASC 820 prioritizing valuation inputs into three levels:
    - Level 1 Inputs: Consist of unadjusted quoted prices in active markets for identical assets or liabilities
    - Level 2 Inputs: Consist of directly or indirectly observable inputs for assets or liabilities that are not included within Level 1 Inputs (for example, quoted prices in inactive markets)
    - Level 3 Inputs: Consist of unobservable inputs for an asset or liability
- Valuation approach considers industry guidance, including the updated US Private Equity Valuation Guidelines which seek to create greater consistency within the private equity industry with respect to valuations.

Wall Street Office is the investment sub-ledger used by KAM. Wall Street Office is interfaced with the trade order management system, Black Mountain Systems (aka Everest or BMS). Holdings and trading activity are reconciled between the two systems every night. Wall Street Office is manually uploaded through to one of the three general ledger/partnership accounting systems used by KAM depending on the nature of the account being serviced. The general ledger systems used are Microsoft Great Plains (used for separate custodial accounts), Sungard Investier (used for hedge funds), and Sungard Investran is used for private-equity like credit funds. Client reporting is generated through the general ledger systems and the data warehouse. These systems are maintained independently of the front office and are maintained by the finance team.

KKR has a business continuity plan (the “Plan”) that provides reasonable assurance that systems and personnel can operate in a short period of time following a disruption of business operations at any location. KAM contracts with SunGard Data Recovery Services to provide data center services that KAM IT uses to replicate the primary business applications and data that support the KAM operations. The primary SunGard Data Recovery site is located in Philadelphia, which is separated enough geographically from primary KAM investment operations such that it is not subject to similar business disruption risks.

KKR carries liability insurance that is similar to what other asset managers with similar businesses hold. KKR also carries "errors and omissions" insurance coverage in addition to other insurance coverage. We believe our insurance coverage and amounts are customary for the types of businesses that we operate.

(This page left blank intentionally)

Performance Analysis

Performance Overview

The Fund is a successor fund to KKRLP I, KKR's first dedicated leveraged loan origination fund which had its final close in 2011 raising $460.2 million of equity. Prior to the launch of KKRLP I, the Investment Team invested since 2005 in direct lending transactions primarily through KAM specially managed accounts ("SMAs"). KKRLP I made its first investment in November 2011. Leveraged investment capacity of KKRLP I is approximately $1.2 billion.

Fund	Vintage Year	Fund Size	Capital Invested	# of Inv.	Inv. Realized	Realized Value	Unrealized Value	Total Value	Gross TVPI	Net TVPI	Gross IRR	Net IRR	Loss Ratio	Avg. Hold Period
KKR Lending Partners	2011	$460.2	$1,110.0	35	8	$416.9	$809.1	$1,226.0	1.1x	1.1x	10.5%	12.1%	0.1%	0.9 years
Pre-Fund Deals	2005	1,832.0	1,313.4	39	34	1,447.6	101.2	1,548.7	1.2	N/A	8.9%	N/A	0.0%	2.7 years
Total			**$2,423.4**	**74**	**42**	**$1,864.5**	**$910.3**	**$2,774.7**	**1.1x**	**1.1x**	**9.3%**	**12.1%**	**0.1%**	**2.3 years**

Fund	# of Inv.	Capital Invested	Realized Value	Unrealized Value	Gross TVPI	Gross IRR
KKR Lending Partners - Realized	8	$209.0	$238.5	$0.0	1.1x	15.8%
KKR Lending Partners - Unrealized	27	901.0	178.4	809.1	1.1	9.4%
	35	**$1,110.0**	**$416.9**	**$809.1**	**1.1x**	**10.5%**
Pre-Fund Deals - Realized	34	$1,125.9	$1,317.1	$0.0	1.2x	8.7%
Pre-Fund Deals - Unrealized	5	187.5	130.4	101.2	1.2	9.9%
	39	**$1,313.4**	**$1,447.6**	**$101.2**	**1.2x**	**8.9%**
All Prior Funds - Realized	42	$1,334.9	$1,555.6	$0.0	1.2x	9.2%
All Prior Funds - Unrealized	32	1,088.5	308.8	910.3	1.1	9.6%
All Prior Funds - Total	**74**	**$2,423.4**	**$1,864.5**	**$910.3**	**1.1x**	**9.3%**

Benchmark Analysis

Benchmark: Thomson ONE Global All Private Equity

Fund	Vintage Year	Net IRR	Quartiles 1st	Quartiles 2nd	Quartiles 3rd
KKR Lending Partners	2011	**12.1%**	18.4%	7.9%	-1.1%
Pre-Fund Deals	2005	**8.9%**	12.8%	7.4%	0.7%

Fund	Vintage Year	Net TVPI	Quartiles 1st	Quartiles 2nd	Quartiles 3rd
KKR Lending Partners	2011	**1.1x**	1.3x	1.1x	1.0x
Pre-Fund Deals	2005	**1.2**	1.8	1.4	1.0

Fund	Vintage Year	Net DPI	Quartiles 1st	Quartiles 2nd	Quartiles 3rd
KKR Lending Partners	2011	**0.4x**	0.1x	0.0x	0.0x
Pre-Fund Deals	2005	**0.8**	1.1	0.8	0.4

Benchmark: Thomson ONE Global Mezzanine

Fund	Vintage Year	Net IRR	Quartiles		
			1st	2nd	3rd
KKR Lending Partners	2011	**12.1%**	17.3%	9.7%	8.0%
Pre-Fund Deals	2005	**8.9%**	7.7%	7.2%	6.2%

Fund	Vintage Year	Net TVPI	Quartiles		
			1st	2nd	3rd
KKR Lending Partners	2011	**1.1x**	1.2x	1.1x	1.1x
Pre-Fund Deals	2005	**1.2**	1.4	1.4	1.3

Fund	Vintage Year	Net DPI	Quartiles		
			1st	2nd	3rd
KKR Lending Partners	2011	**0.4x**	0.4x	0.2x	0.1x
Pre-Fund Deals	2005	**0.8**	1.1	0.9	0.7

Benchmark: S&P/LSTA Leverage Loans Index

Fund	Vintage Year	Net IRR	Quartiles		
			1st	2nd	3rd
KKR Lending Partners	2011	**12.1%**	N/A	5.9%	N/A
Pre-Fund Deals	2005	**8.9%**	N/A	N/A	N/A

Fund	Vintage Year	Net TVPI	Quartiles		
			1st	2nd	3rd
KKR Lending Partners	2011	**1.1x**	N/A	1.1x	N/A
Pre-Fund Deals	2005	**1.2**	N/A	N/A	N/A

Fund	Vintage Year	Net DPI	Quartiles		
			1st	2nd	3rd
KKR Lending Partners	2011	**0.4x**	N/A	0.4x	N/A
Pre-Fund Deals	2005	**0.8**	N/A	N/A	N/A

Sensitivity Analysis

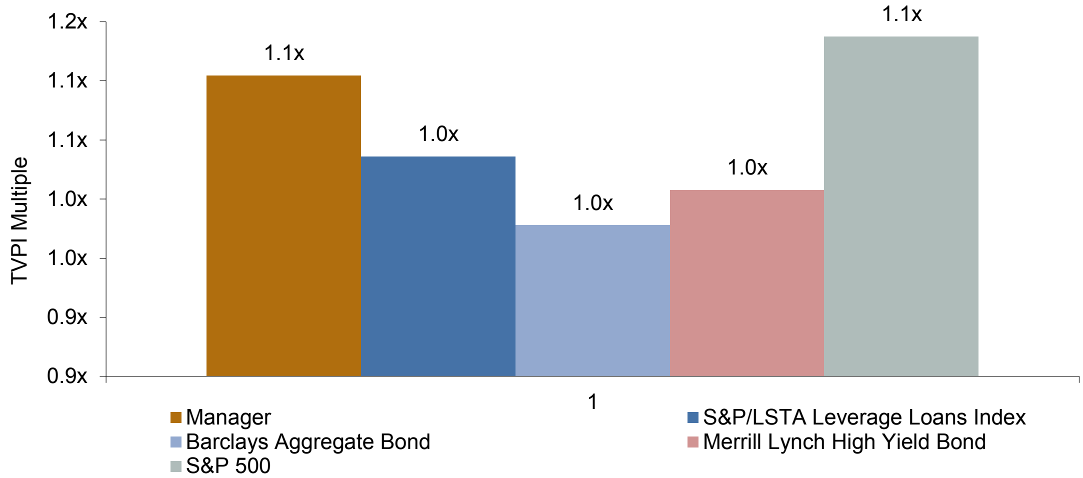
The sensitivity analysis seeks to assess a fund's quality of returns and provides an indication of how much confidence can be placed in the team's ability to replicate past performance. We removed the best-performing deal (from the perspective of gain, IRR and multiple) from the funds to assess the impact upon overall returns.

Fund	Base Net IRR	Quartile	Base Net TVPI	Quartile	Winner Removed	New Net IRR	Quartile	New Net TVPI	Quartile
Largest Gain Removed									
KKR Lending Partners	12.1%	1st	1.1x	1st	Things Remembered, Inc.	12.2%	1st	1.1x	1st
Largest IRR Removed									
KKR Lending Partners	12.1%	1st	1.1x	1st	Digital Insight Corporation	12.0%	1st	1.1x	1st
Largest Multiple of Cost Removed									
KKR Lending Partners	12.1%	1st	1.1x	1st	Asset Acceptance Capital Corp.	10.4%	1st	1.1x	1st

Public Market Comparison

The chart below compares prior performance to several public market indices: the S&P/LSTA Leverage Loans Index, Barclays Aggregate Bond Index, Merrill Lynch High Yield Bond Index and S&P 500 Index. The chart compares the manager's prior performance against the opportunity cost, which is represented by the multiples that would have been generated by investing in the public market indices.

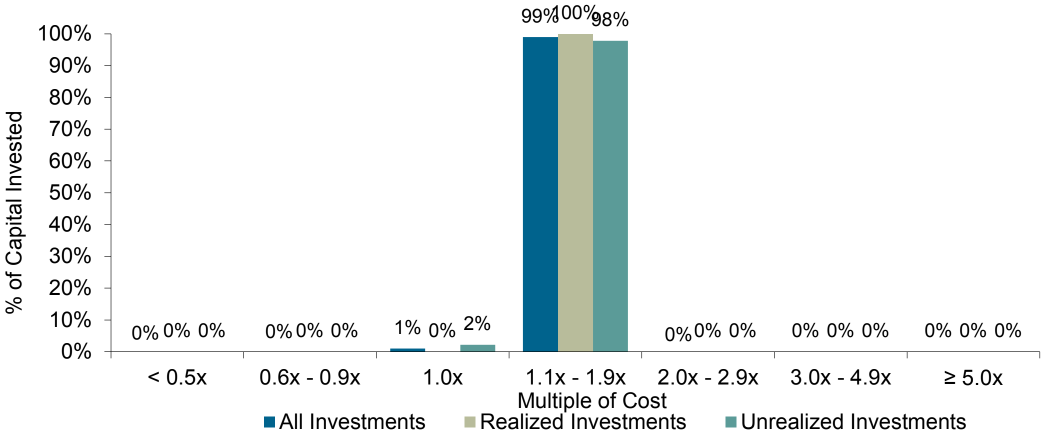
Public Market Comparison Performance
As of June 30, 2014



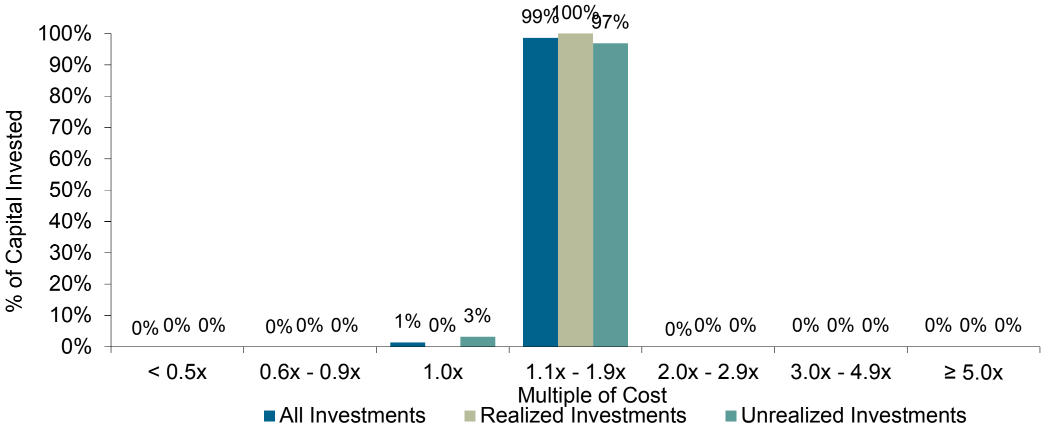
Dispersion of Returns

The first graph below shows the percent of capital invested in each deal across the manager's prior funds against the multiples achieved on those deals. The percentage shown above each column represents the percent of capital the manager has invested in deals whose return falls within the range specified. The second graph below highlights the percent of number of deals across the manager's prior funds against the multiples achieved on those deals. The percentage shown above each column represents the percent of number of deals the manager has completed whose return falls within the range specified.

Dispersion of Total Returns by Amount Invested
As of June 30, 2014

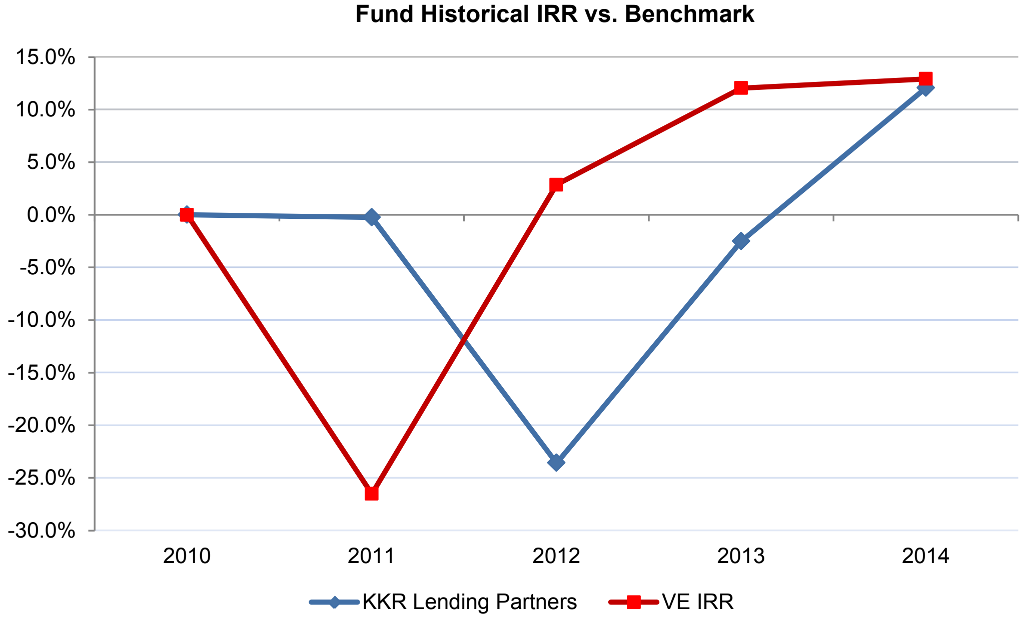


Dispersion of Total Returns by Percentage of Deals
As of June 30, 2014



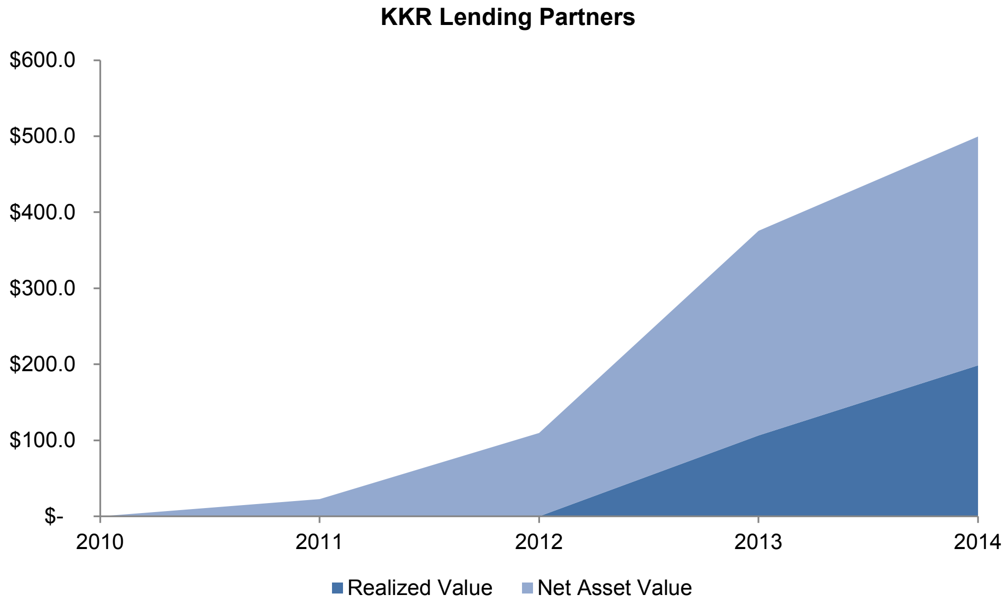
J-Curve Analysis

The charts below depict the historical net IRR of each fund on an annual basis versus its respective peer universe benchmark (Thomson ONE Global All Private Equity).



Realization Analysis

The charts below depict the historical realized and unrealized Net Asset Values ("NAV") for the previous funds.



Industry Analysis

The tables below highlight the historical track record of the funds by industry exposure.

KKR Lending Partners

Industry	# of Deals	Capital Invested	Proceeds	Unrealized	Total Value	% of Cost	Gross TVPI	Gross IRR	Loss Ratio by Invested Capital	Gain Concentration
Aircraft Leasing	1	$24.0	$28.4	$0.0	$28.4	2.2%	1.2x	18.3%	0.0%	3.8%
Apparel Sourcing	1	75.0	21.3	59.1	80.4	6.8%	1.1	11.6%	0.0%	4.7%
Building Materials	1	9.7	0.7	10.1	10.8	0.9%	1.1	10.1%	0.0%	0.9%
Business Services	4	150.0	40.2	124.3	164.5	13.5%	1.1	9.6%	0.0%	12.5%
Consumer Discretionary	4	105.4	11.4	103.8	115.2	9.5%	1.1	7.7%	0.0%	8.4%
Debt Servicing	1	21.8	26.7	0.0	26.7	2.0%	1.2	15.2%	0.0%	4.2%
Education Services	1	24.1	5.2	17.5	22.7	2.2%	0.9	-3.1%	5.8%	-1.2%
Energy	4	83.4	22.1	71.4	93.5	7.5%	1.1	20.7%	0.0%	8.7%
Financial Services	5	145.6	26.2	129.6	155.8	13.1%	1.1	9.8%	0.0%	8.8%
Food & Beverage	1	16.1	1.5	16.1	17.6	1.5%	1.1	8.4%	0.0%	1.3%
Gaming	1	33.4	40.0	0.0	40.0	3.0%	1.2	16.7%	0.0%	5.7%
Government Services	1	44.1	10.7	39.2	49.9	4.0%	1.1	9.1%	0.0%	5.0%
Industrials	2	60.7	30.3	36.6	66.9	5.5%	1.1	10.3%	0.0%	5.3%
Information Technology	1	20.2	21.3	0.0	21.3	1.8%	1.1	30.6%	0.0%	0.9%
Media	1	53.9	5.6	52.9	58.5	4.9%	1.1	9.0%	0.0%	4.0%
Retail	3	130.0	35.0	111.4	146.4	11.7%	1.1	10.8%	0.0%	14.1%
Technology	1	39.4	9.0	37.1	46.1	3.5%	1.2	9.3%	0.0%	5.8%
Telecommunications	2	73.2	81.3	0.0	81.3	6.6%	1.1	15.4%	0.0%	7.0%
Total	**35**	**$1,110.0**	**$416.9**	**$809.1**	**$1,226.0**		**1.1x**	**10.5%**	**0.1%**	**N/A**

Investment Type Analysis

The tables below highlight the historical track record of the funds by type of investment.

KKR Lending Partners

Stage	# of Deals	Capital Invested	Proceeds	Unrealized	Total Value	% of Cost	Gross TVPI	Gross IRR	Loss Ratio by Invested Capital	Gain Concentration
Acquisition Financing	7	$265.3	$76.8	$217.4	$294.2	23.9%	1.1x	9.6%	0.0%	24.9%
Asset Financing	1	24.0	28.4	0.0	28.4	2.2%	1.2	18.3%	0.0%	3.8%
Dividend Recapitalization	7	269.5	56.8	235.1	291.9	24.3%	1.1	11.0%	0.0%	19.3%
General Corporate Purposes	4	57.3	28.9	31.3	60.2	5.2%	1.1	14.2%	0.0%	2.5%
Mgmt Buyout of Founders' Share	1	36.6	7.0	34.2	41.2	3.3%	1.1	8.8%	0.0%	4.0%
Project Financing	1	30.2	2.0	31.4	33.4	2.7%	1.1	20.5%	0.0%	2.8%
Refinancing	13	402.9	189.8	259.7	449.5	36.3%	1.1	10.1%	0.3%	40.2%
Restructuring	1	24.2	27.2	0.0	27.2	2.2%	1.1	11.1%	0.0%	2.6%
Total	**35**	**$1,110.0**	**$416.9**	**$809.1**	**$1,226.0**		**1.1x**	**10.5%**	**0.1%**	**N/A**

Geographic Analysis

The tables below highlight the historical track record of the funds by geographic exposure.

KKR Lending Partners

Geography	# of Deals	Capital Invested	Proceeds	Unrealized	Total Value	% of Cost	Gross TVPI	Gross IRR	Loss Ratio by Invested Capital	Gain Concentration
Europe	3	$73.7	$47.0	$39.4	$86.4	6.6%	1.2x	11.3%	0.0%	10.9%
North America	32	1,036.3	369.9	769.7	1,139.6	93.4%	1.1	10.4%	0.1%	89.1%
Total	**35**	**$1,110.0**	**$416.9**	**$809.1**	**$1,226.0**		**1.1x**	**10.5%**	**0.1%**	**N/A**

Exit Analysis

The tables below highlight the historical track record of the funds by type of exit.

KKR Lending Partners

Exit Type	# of Deals	Capital Invested	Proceeds	Unrealized	Total Value	% of Cost	Gross TVPI	Gross IRR	Loss Ratio by Invested Capital
Acquisition Financing	1	$21.8	$26.7	$0.0	$26.7	10.4%	1.2x	15.2%	0.0%
Acquisition Financing, Refinancing	1	33.4	40.0	0.0	40.0	16.0%	1.2	16.7%	0.0%
Refinancing	6	153.8	171.8	0.0	171.8	73.6%	1.1	15.7%	0.0%
Total	**8**	**$209.0**	**$238.5**	**$0.0**	**$238.5**		**1.1x**	**10.5%**	**0.1%**

Attribution Analysis

The tables below highlight the historical track record of the funds by lead investor.

KKR Lending Partners

Investor	# of Deals	Capital Invested	Proceeds	Unrealized	Total Value	% of Cost	Gross TVPI	Gross IRR	Loss Ratio by Invested Capital	Gain Concentration
Anthony Ma	3	$75.5	$33.5	$48.4	$81.9	3.4%	1.1x	18.8%	0.0%	2.8%
Arnold Ha	3	122.8	80.9	54.6	135.5	5.6%	1.1	7.6%	1.1%	5.5%
Blaine MacDougald	1	24.2	27.2	0.0	27.2	1.1%	1.1	11.1%	0.0%	1.3%
Carl Yang	2	50.5	21.6	34.2	55.8	2.3%	1.1	8.9%	0.0%	2.3%
Dev Gopalan	6	164.8	69.4	113.4	182.8	7.5%	1.1	12.0%	0.0%	7.8%
Doug Tapley	5	205.6	42.3	185.0	227.3	9.3%	1.1	10.0%	0.0%	9.4%
Jamie Ely	1	53.9	5.6	52.9	58.5	2.4%	1.1	9.0%	0.0%	2.0%
Jeremiah Lane	3	146.5	94.5	70.2	164.7	6.6%	1.1	12.0%	0.0%	7.9%
Jessica Yan	3	71.3	11.0	67.7	78.7	3.2%	1.1	11.3%	0.0%	3.2%
Jonathan Leu	4	123.3	105.8	39.2	145.0	5.6%	1.2	13.8%	0.0%	9.4%
Julian Gropp	1	47.8	18.8	33.1	51.9	2.2%	1.1	12.0%	0.0%	1.8%
Keith Fernandez	2	86.3	12.0	85.6	97.6	3.9%	1.1	9.3%	0.0%	4.9%
Matt Kretzman	2	44.3	3.8	44.5	48.3	2.0%	1.1	9.6%	0.0%	1.7%
Mayo Shattuck	6	153.3	65.2	108.0	173.2	6.9%	1.1	16.4%	0.0%	8.6%
Michael Wax	3	74.9	3.6	74.2	77.8	3.4%	1.0	8.9%	0.0%	1.3%
Michelle Domanico	4	107.9	18.0	101.9	119.9	4.9%	1.1	10.2%	0.0%	5.2%
Nikhil Srivastava	4	97.3	42.5	56.9	99.4	4.4%	1.0	2.9%	1.4%	0.9%
Rony Ma	4	198.9	47.9	170.2	218.1	9.0%	1.1	8.9%	0.0%	8.3%
Sam Clayman	4	121.2	27.4	107.9	135.3	5.5%	1.1	11.7%	0.0%	6.1%
Scott Cullerton	5	167.0	72.8	110.7	183.5	7.6%	1.1	8.8%	0.0%	7.1%
Shivom Sinha	1	39.1	1.4	39.4	40.8	1.8%	1.0	13.4%	0.0%	0.7%
Sid Singh	1	24.2	27.2	0.0	27.2	1.1%	1.1	11.1%	0.0%	1.3%
Tomas Maraver	1	9.7	0.7	10.1	10.8	0.4%	1.1	10.1%	0.0%	0.5%
Total	**69**	**$2,210.3**	**$833.1**	**$1,608.1**	**$2,441.2**		**1.1x**	**10.5%**	**0.1%**	**N/A**

(This page left blank intentionally)

Summary of Terms & Conditions

Fund	Neutral	KKR Lending Partners II L.P., a Delaware limited partnership (the "Fund"), is being formed by Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates, "KKR") to generate current income through investments in secured debt, including in particular senior secured and secured loans and bonds ("Portfolio Investments"). The Fund will focus on direct originated transactions and proprietary or limited syndicated transactions with third-party intermediaries including investment banks. The Fund will primarily target companies ("Portfolio Companies") that have EBITDA of $25 million or above, at least 60% of which will be based in the United States. All Portfolio Investments will be secured, with 65% or more of Total Adjusted Capital being invested in Portfolio Investments that are secured with a first priority lien over all or part of the assets of Portfolio Companies. The Fund will not invest in Portfolio Companies that are KKR Affiliated Companies.
General Partner	Neutral	The general partner of the Fund is KKR Associates Lending II L.P., a Delaware limited partnership (the "General Partner"), which is an affiliate of KKR. The General Partner will make investment decisions on behalf of the Fund.
Manager	Neutral	KAM Fund Advisors LLC (or one of its affiliates), a Delaware limited liability company that is a wholly-owned subsidiary of KKR Asset Management LLC ("KAM") and an affiliate of KKR, will be appointed by the General Partner on behalf of the Fund to act as investment advisor (the "Advisor") subject to the overall supervision of the General Partner. The Advisor may appoint sub-advisors, including affiliates located in non-U.S. jurisdictions, which will be compensated by the Advisor at no additional cost to the Fund.
Capital Commitments	Neutral	Capital commitments to the Fund ("Capital Commitments") are being sought from a select group of sophisticated investors. Each investor in the Fund will be required to commit at least $10 million, which amount may be reduced at the discretion of the General Partner, and, upon admission to the Fund, will become a limited partner thereof (each, a "Limited Partner" and together with the General Partner, the "Partners").
Participation by KKR	Positive	The General Partner (together with its affiliates) will commit at least $50 million in aggregate (the "KKR Aggregate Capital Commitment") to the Fund and any Parallel Funds. The KKR Aggregate Capital Commitment may be increased by the General Partner and its affiliates in their sole discretion at any time on or prior to the Final Closing Date. As described in more detail in the Partnership Agreement, the General Partner may, in its sole discretion, sever and convert any portion of its General Partner interest in the Fund that represents any portion of the KKR Aggregate Capital Commitment in excess of the minimum aggregate commitment of $50 million into an interest equivalent to a Limited Partner interest, and may transfer such converted interest to

		any other person without the consent of the Limited Partners. A portion of the KKR Aggregate Capital Commitment may be funded through a reduction of management fees. KKR or KAM may sponsor one or more vehicles (each, a “KKR Vehicle”) through which certain eligible partners, members, managing directors, directors, officers, or employees of KKR, KAM or their affiliates (“KKR Personnel”), Senior Advisors, and Capstone Executives and RPM Executives or any of their respective designees may invest on a side-by-side basis with the Fund or as a Feeder Fund into the Fund. Any capital commitments of such persons to the KKR Vehicles may, in the General Partner’s discretion, be used to satisfy the KKR Aggregate Capital Commitment. Such commitments will participate in each Fund investment. No person whose commitment is included for purposes of satisfaction of the KKR Aggregate Capital Commitment will be entitled to vote on any matter requiring the approval or consent of the Limited Partners. *Industry standard GP participation rate is 1%; KKR is targeting to commit up to 3.3%. While HEK prefers to see the GP commitment be funded entirely in cash, we view the increased participation rate by KKR as beneficial to Limited Partners.*
Closing	Neutral	The first closing of the Fund (the “First Closing Date”) will occur at such time as the General Partner may determine in its sole discretion. Additional Limited Partners may be admitted after the First Closing Date, at the discretion of the General Partner, for a period ending 12 months from the First Closing Date, subject to extension with the consent of the Advisory Committee or a majority in interest of the Limited Partners (such date, the “Final Closing Date”).
Partners Participating in Subsequent Closings	Negative	With respect to any investments made by the Fund prior to a subsequent closing in which a Limited Partner is admitted or increases its Capital Commitment and which investments are still then held by the Fund, the General Partner intends to permit such Limited Partner to participate in such prior investments by contributing to the Fund at such subsequent closing (or such later date determined by the General Partner) its proportionate share of capital contributions made in respect of such investments (adjusted to reflect any prior distributions of cash, disposition proceeds or cash income) plus an additional amount on such share calculated at a rate of 8.0% per annum (calculated daily and compounded annually) from the date such contributions were funded to the date of such capital contributions by such Limited Partner (which additional amount will not reduce such Limited Partner’s unused Capital Commitment). Amounts so contributed will be distributed to the existing Partners (including the General Partner) according to their respective sharing percentages in such investments with such amounts distributed in accordance with the provisions described in “Timing of Distributions and Reinvestment”. Capital contributions of existing Partners returned to those Partners under the preceding sentence will be treated as not having been called and contributed to the Fund. Each Limited Partner admitted or increasing its Capital Commitment at any subsequent closing will also be required to fund its pro rata share

of organizational expenses, Fund expenses and management fees, if any, paid prior thereto plus an additional amount on such share equal to 8.0% per annum (calculated daily and compounded annually). Amounts so contributed (other than management fees and the 8.0% per annum additional amount associated therewith, which will be paid to the Advisor) will be distributed to the existing Partners (including the General Partner) in proportion to their respective proportionate shares of such expense payments with such amounts distributed in accordance with the provisions described in "Timing of Distributions and Reinvestment". Capital contributions returned to the Partners under the preceding sentence will be treated as not having been called and funded by the relevant Partner.

Notwithstanding the above, the General Partner may, in its sole discretion, but is not required to, exclude any Limited Partners admitted or increasing their Capital Commitments to the Fund on a subsequent closing from participating in prior investments made by the Fund. In addition, if the General Partner in its sole discretion determines that pro rata payments on the above basis at a subsequent closing would not appropriately reflect a material change in the value of a prior investment made by the Fund, the General Partner may, in its sole discretion, but is not required to, adjust the payments required to be made by Limited Partners at such subsequent closing (or a later date determined by the General Partner) to appropriately reflect the change in value. Any valuation of an investment of the Fund in such circumstances will be determined by the General Partner in accordance with KAM's written valuation policy in place from time to time, a copy of which will be provided to Limited Partners upon request. In connection with any determination of fair value made in the discretion of the General Partner, the General Partner may rely upon a valuation provided by any nationally-recognized investment bank or valuation expert. The interests of Limited Partners admitted to the Fund prior to a subsequent closing in any gains generated by investments made by the Fund prior to such closing will be diluted to the extent that the General Partner determines not to exclude Limited Partners admitted to or increasing their Capital Commitments to the Fund on such subsequent closing from participating in prior investments that have materially increased in value as of such subsequent closing, or to otherwise adjust the payments required to be made by such Limited Partners at such subsequent closing to reflect such increase.

Increases in the Capital Commitment of the General Partner effective as of any subsequent closing of the Fund will be subject to the same requirements and otherwise managed in the same manner as increases in the Capital Commitment of any Limited Partner provided that the General Partner will not be required to fund any amounts in respect of management fees or organizational expenses paid prior thereto.

The General Partner, in its sole discretion, may, but is not required to, adjust the percentage interests of the Fund, any Parallel Fund, any KKR Vehicle that is a Parallel Fund and any other investment fund, vehicle or account co-investing alongside the Fund, as described in "Allocation of Investment Opportunities" in any investments (and make corresponding distributions to investors in such vehicles) to reflect

		increases in capital commitments by investors to such vehicles and related capital contributions in respect of such investments and organizational expenses. Neither the General Partner nor the Fund will be liable if a valuation reasonably believed by the General Partner to be an accurate valuation of a particular investment is found not to be such. Each Partner will share in investments made after the admission of additional Limited Partners or the increase in capital commitments by any Partner on a pro rata basis, based upon the remaining unused Capital Commitments of the Partners. *HEK believes the subsequent closing interest percentage (8%) is high relative to industry standard that is closer to the Prime rate plus several percentage points. In addition, HEK does not believe it is typical for the GP to have sole discretion for determining whether a prospective LP is excluded from participating in prior investments without a specific reason, such as tax or regulatory issues.*
Investment Period	Neutral	The investment period for the Fund (the "Investment Period") will commence on the First Closing Date and will continue until the earliest of (a) the date on which the aggregate Capital Commitments of the Partners to the Fund have been invested (and are not subject to restoration), (b) the third anniversary of the commencement of the Investment Period, provided that the Investment Period may be extended with the consent of the Advisory Committee or a majority in interest of the Limited Partners, (c) the election of all Limited Partners to reduce their respective Capital Commitments to the Fund to zero pursuant to a Key Person Event and (d) the date on which the General Partner elects to terminate the Investment Period. At the end of the Investment Period, all Partners will be released from any further obligation to provide capital for investments, other than as set forth under "Takedowns".
Limited Partner Termination of Investment Period	Neutral	The investment period may be terminated on the date on which Limited Partners holding Interests representing 75% of aggregate Capital Commitments of the Limited Partners to the Fund elect to terminate the Investment Period.
Key Person	Negative	If (a) there are fewer than three Key Persons devoting the Required Involvement for any consecutive period of 90 days, unless resulting from a death or disability, in which case for any consecutive period of 180 days (a "Key Person Event"), or (b) there are fewer than two KAM Executives devoting the relevant Required Involvement for any consecutive period of 90 days, unless resulting from a death or disability, in which case for any consecutive period of 180 days (a "KAM Executive Event"), then each Limited Partner will have 45 days from the date it receives written notice from the Fund of the occurrence of such Key Person Event or KAM Executive Event (21 days, in certain circumstances) to provide written notice to the General Partner of such Limited Partner's election to reduce its unused Capital Commitment for new investments. Except to the extent of such a reduction in its unused

Capital Commitment, any such electing Limited Partner will remain obligated as a Limited Partner of the Fund.

"Key Person" means each of Marc Ciancimino, Erik A. Falk, Craig J. Farr, Christopher A. Sheldon, Jamie M. Weinstein and Nathaniel M. Zilkha and any other individual who is not disapproved as a Key Person by the Advisory Committee (or, if approval is sought by the General Partner from the Limited Partners, a majority in interest of the Limited Partners) within 30 days of receiving notice from the General Partner of a replacement Key Person.

"KAM Executive" means each of Erik A. Falk, Christopher A. Sheldon and Nathaniel M. Zilkha and any other individual who is not disapproved as a KAM Executive by the Advisory Committee (or, if approval is sought by the General Partner from the Limited Partners, a majority in Interest of the limited partners) within 30 days of receiving notice from the General Partner of such appointment.

"Required Involvement" means, (i) as to each of Marc Ciancimino, Erik A. Falk, Christopher A. Sheldon, Jamie M. Weinstein and Nathaniel M. Zilkha (or any replacement), such person is devoting the substantial majority of his business time to the management and operation of (a) the Fund, any Parallel Funds, any Feeder Funds, any KKR Vehicles and any Alternative Vehicles, (b) any other funds, vehicles or accounts sponsored, managed or advised by KAM (or any of its direct or indirect subsidiaries or its successors) and (c) any business activities of KAM or investments and portfolio companies of the foregoing funds, vehicles and accounts and (ii) as to Craig J. Farr, such person is devoting the substantial majority of his business time to the activities of KKR and its affiliates.

The Key Person clause is weak in that four of six defined "Key Persons" must be devoting less than a majority of their time to the business before the first tier is triggered and two of three "KAM Executives" must be devoting less than a majority of their time to the business before the second tier is triggered.

Takedowns	Neutral	Upon at least 10 business days' prior written notice, capital contributions will be called from Partners as needed to make investments and to pay management fees and expenses payable by the Fund. The General Partner may call for capital contributions from time to time to make investments throughout the Investment Period. Calls for capital for the payment of management fees, expenses and other obligations and liabilities of the Fund (including with respect to the repayment of indebtedness and the funding of guarantees) may occur from time to time through the completion of the dissolution, winding-up and termination of the Fund. The Fund may also call for capital contributions after the Investment Period to (i) complete investments by the Fund (including Follow-On Investments as described below) in respect of transactions in process prior to the end of the Investment Period ("Follow-Up Investments"), with capital contributions for such Follow-Up Investments to be made no later than the last date specified for such investments in the relevant transaction documents or such longer period as may be approved by the Advisory Committee or a majority in interest of the Limited Partners, (ii) fund delayed draw and

		other ongoing funding obligations relating to existing investments and investments completed pursuant to clause (i) above, and (iii) make additional investments in respect of existing investments ("Follow-On Investments") in an amount not to exceed 20% (subject to increase with the consent of either the Advisory Committee or a majority in interest of the Limited Partners) of the aggregate Capital Commitments (excluding commitments and reserves made therefor during the Investment Period). The percentage limitation set forth in clause (iii) above applies only to Follow-On Investments to be funded with capital contributions from Limited Partners. For the avoidance of doubt, the Fund may at any time make further investments in, or otherwise contribute capital to, investments, including through the incurrence of indebtedness. Pending investment or distribution by the Fund, monies held by the Fund may be placed on deposit with major banks or in certain other high-quality, short-term investments specified in the Partnership Agreement, including investments sponsored or managed by KKR and its affiliates. Unused Capital Commitments (determined without taking into account capital contributions by the Limited Partners for organizational expenses) will be the basis on which capital contributions will be called for investments, except that follow-on investments in existing portfolio companies generally will be called for on the basis of the Partners' sharing percentages in the original investment.
Carried Interest	Neutral	As described in "Priority of Distributions" below, the General Partner will receive a carried interest allocation equal to 15% of the net realized returns generated by the Fund's investments, subject to a preferred return equal to 8.0% per annum.
Priority of Distributions	Negative	The Limited Partners' shares of net disposition proceeds and current income from any investment by the Fund which shall (to the extent satisfied out of such proceeds) be net of the repayment of indebtedness and other Fund expenses as determined in good faith by the General Partner, will be distributed to each Limited Partner that participated in such investment on the one hand, and the General Partner on the other hand, in the following order of priority: a. first, 100% to such Limited Partner until such proceeds equal the aggregate of (i) such Limited Partner's share of the cost basis of and the amount of capital contributions used to pay Fund expenses, organizational expenses and management fees, in each case, allocable to such investment (that have not been recouped from prior distributions made after a writedown with respect to such investment, or otherwise recouped), (ii) the amount of realized losses on any other Fund investment allocated to such Limited Partner that have not been previously recouped, and (iii) such Limited Partner's share of the "writedown amount" (defined below) for any unrealized investment (the sum of the amounts described in clauses (i), (ii) and (iii) above is referred to as a Limited Partner's "Adjusted Realized Capital");

b. second, 100% to such Limited Partner until such proceeds equal an amount necessary to provide an internal rate of return of 8.0% per annum on the Adjusted Realized Capital, compounded annually (the "Preferred Return");

c. third, 100% to the General Partner until it receives cumulative proceeds equal to 15% of the proceeds distributed with respect to such Limited Partner in excess of Adjusted Realized Capital; and

d. thereafter, 85% to such Limited Partner and 15% to the General Partner.

Interest income with respect to cash held short term prior to investment or distribution will be distributed to the Partners in proportion to the Partners' proportionate interests in the Fund property or funds that produced such income, as reasonably determined by the General Partner.

"Writedown amount" means (i) the amount invested in a Portfolio Company as to which a bankruptcy proceeding has commenced and continues at the time of the distribution or (ii) for the purposes of distributions of disposition proceeds, the amount of any loss inherent in the carrying value of any investment (other than a marketable security) that has been written down, as reflected in the most recent valuation provided to the Limited Partners, in each case to the extent not previously recouped.

The General Partner may defer all or any portion of the amount of distributions otherwise due to the General Partner pursuant to clauses c. and d. above (such distributions to the General Partner of disposition proceeds or current income from investments pursuant to clauses c. and d. above, (the "GP Carry")). Such deferred amounts, if any, will be distributed instead to the relevant Limited Partners. The General Partner will receive any deferred amounts on a priority basis in subsequent distributions to such Limited Partners without interest accruing to the General Partner during the deferral period.

For the avoidance of doubt, investment proceeds (and the calculation of GP Carry thereon) shall include all returns earned on capital contributions. For the further avoidance of doubt, management fees returned in accordance with the foregoing provisions will be without duplication of amounts of management fees refunded in accordance with "Other Fees; Management Fee Offset".

The distribution waterfall is based on a deal-by-deal calculation (American Waterfall) as opposed to a total fund calculation (European Waterfall).

Timing of Distributions and Reinvestment	Neutral	The General Partner intends to distribute all cash proceeds from dispositions of investments, net of expenses and appropriate reserves, as soon as practicable (and not later than 90 days) after the end of the quarter in which such proceeds were received; provided that the General Partner may defer distribution of any cash proceeds from dispositions until the aggregate amount of undistributed cash proceeds from dispositions by the Fund exceeds $10 million. With respect to cash

AON Hewitt

income (other than with respect to temporary investment income as described above), such amounts will generally be distributed as soon as practicable (and not later than 90 days) after the end of the quarter in which such cash income was received; provided that (a) the General Partner may, in its sole discretion, elect not to distribute all or any amount received prior to the Final Closing Date until 90 days following such date and (b) at any time, if the amount that would otherwise be distributed with respect to any quarter is less than $5 million, the General Partner may, in its sole discretion, elect not to distribute all or any part of such amount and carry forward such amount to the next following calendar quarter. For the avoidance of doubt, the General Partner will have no obligation to distribute payment-in-kind ("PIK") interest received by the Fund with respect to any investment as cash income and may, instead, hold such securities as an additional investment in such investment.

Capital contributions used to acquire investments of the Fund refunded during the Investment Period (including, as a result of any syndication, refinancing, sub-underwriting, or other disposition of such investment) may be retained and reinvested ("Retained Distributions") or distributed and restored to the Partners' unused Capital Commitments and will be available to be recalled for future use. The amount of capital contributions from the Partners used to pay Fund expenses will also be restored to the Partners' unused Capital Commitments to the extent the Partners receive subsequent distributions and will be available to be recalled for future use.

Tax Distributions	Neutral	The Fund may make distributions to the General Partner in amounts intended to enable the General Partner and its direct and indirect owners to discharge their United States income tax liabilities arising from the allocations of income or gain to the General Partner corresponding to distributions made to a Limited Partner under sub-clause (iii) of clause a. under "Priority of Distributions." Any such distributions will reduce the amount of subsequent distributions that the General Partner would otherwise receive. Furthermore, any taxes that are withheld or offset from a distribution to any Partner will be treated as distributed to such Partner.
In-Kind Distributions	Neutral	Distributions prior to the liquidation of the Fund may only take the form of cash or marketable securities; provided that, in connection with the liquidation of the Fund or the withdrawal of a Limited Partner or if otherwise consented to by a Limited Partner or as provided for in the Partnership Agreement, distributions may also include non-marketable securities and other assets of the Fund. GP Carry payable to the General Partner will be based on the fair value of securities distributed in kind (or deemed distributed), as determined pursuant to the terms of the Partnership Agreement. Subject to certain procedures and requirements set forth in the Partnership Agreement, the General Partner may in its sole discretion offer the option to all Partners to take securities in connection with any disposition when such securities would otherwise have been sold by the Fund. In any event, the General Partner may itself elect to receive

		an in-kind distribution in lieu of a cash distribution with respect to GP Carry or other amounts distributable to the General Partner with respect to such disposition.
General Partner Clawback	Neutral	If, following the completion of the dissolution, winding-up and termination of the Fund, (a) with respect to a Limited Partner (that then holds interests in the Fund and is not a defaulting Limited Partner), the amount (calculated without duplication) of such Limited Partner's Adjusted Realized Capital plus a Preferred Return thereon exceeds the aggregate distributions of investment proceeds to such Limited Partner, in each case calculated as of the date of the final distribution by the Fund to the Limited Partner (other than in respect of the Clawback Amount) (such excess amount, the "Preferred Return Shortfall Amount"); or (b) the sum of the cumulative amount of GP Carry with respect to such Limited Partner (the "GP Amount") is greater than 15% multiplied by the sum of (i) the cumulative net distributions with respect to such Limited Partner as of such date and (ii) the GP Amount with respect to such Limited Partner (such excess amount, the "Excess Carry Amount"), then the General Partner will return to the Fund for distribution to such Limited Partner an amount (the "Clawback Amount") equal to the lesser of (A) the greater of the Preferred Return Shortfall Amount and the Excess Carry Amount and (B) the GP Amount with respect to such Limited Partner, calculated on an after-tax basis in accordance with the Partnership Agreement. The Clawback Amount will be secured by a guarantee of KKR Management Holdings L.P.
Allocation of Gains, Losses and Income	Neutral	Gains, losses and income will generally be allocated among the Partners in a manner consistent with the method of distribution described.
Management Fee	Neutral	Until the completion of the dissolution, winding-up and termination of the Fund, the Limited Partners will make capital contributions to the Fund to enable the Fund to pay a quarterly management fee to the Advisor (or an affiliate thereof) in respect of each Limited Partner as follows: a. in respect of each Reduced Fee Limited Partner, an amount equal to 1.25% per annum of the weighted average of the cost basis of invested capital of such Limited Partner; and b. in respect of each Limited Partner that is not a Reduced Fee Limited Partner, an amount equal to 1.5% per annum of the weighted average of the cost basis of invested capital of such Limited Partner. "Reduced Fee Limited Partner" means any Limited Partner (other than a Limited Partner that constitutes a single manager feeder fund that is formed for the purpose of investing in the Fund by a person that is not an affiliate of KKR) that, together with its affiliates, has made a Capital Commitment of at least $75 million. The first quarterly payment will be due on the first calendar quarter end date following the funding date of the first capital call by the Fund for a

Portfolio Investment. A Limited Partner admitted after such first payment will pay, promptly after its admission (or such later date as determined by the General Partner), a share of the management fee equal to the amount such Limited Partner would have paid if it had been admitted as of the date the initial management fee installment was paid, plus an additional amount on such share equal to 8.0% per annum (calculated daily and compounded annually).

On the Final Closing Date, the General Partner will determine whether, as a result of the admission of additional Limited Partners at subsequent closings, any Limited Partners have made capital contributions to the Fund for the payment of management fees in excess of the capital contributions that such Limited Partners would have made if all Limited Partners had been admitted to the Fund on the First Closing Date. In the event that any excess capital contributions for management fees paid to the Advisor have been made by any Limited Partner, the Advisor shall, at its election, either (i) reduce the amount of subsequent management fees payable by such Limited Partner by an amount equal to such excess or (ii) return such excess management fees to the Fund to be returned to such Limited Partner.

The Advisor may waive a portion of the management fee, and, in lieu of the amount waived, the Advisor or an affiliate thereof will obtain a profits interest in all distributions arising from the investment in the Fund of a corresponding amount.

Limited Partners that are affiliates of KKR, KKR Personnel, Senior Advisors, Capstone Executives or RPM Executives may, in the discretion of the General Partner, pay lower or no management fees.

Neither capital contributions made to the Fund for the purpose of paying the management fee nor direct payments by the Limited Partners of management fees will reduce unused Capital Commitments.

The management fee is subject to additional reduction and refund as provided under "Offering and Organizational Expenses" and "Other Fees; Management Fee Offset."

Offering and Organizational Expenses

Neutral

The Fund will pay all legal, accounting and filing expenses incurred in connection with organizing and establishing the Fund, the General Partner, any Feeder Funds sponsored by KKR and the marketing and offering of interests therein (including commissions, costs, fees and expenses of any placement agent or finder and legal, accounting, filing, capital raising, travel and accommodations, printing expenses and other similar costs, fees and expenses). Limited Partners will receive a reduction in management fees equal to the amount of offering and organizational expenses of the Fund (other than the amount of any commissions, costs, fees and expenses or any indemnification costs relating to any placement agents or finders described below) in excess of $4 million.

KKR may engage placement agents or finders in connection with the offer and sale of interests in the Fund to certain Limited Partners. The commissions, fees and expenses due to such placement agents and finders will (to the extent not otherwise borne directly by such Limited

		Partners) be specifically allocated to and paid by those Limited Partners in respect of which such commissions, fees and expenses were incurred, and such Limited Partners will receive a corresponding reduction in their share of the management fee.
General Partner Expenses	Neutral	Each of the General Partner and its affiliates will be responsible for expenses incurred in providing its services to the Fund, including overhead expenses, facilities expenses and compensation of their employees, except as noted under “Fund Expenses”. In addition, the General Partner or any of its affiliates may elect to pay (subject to reimbursement by the Fund either as a reduction of the Reduction Amount as described under “Other Fees; Management Fee Offset” or otherwise) all or any portion of (i) any fees and expenses for transactions not completed, including amounts payable to or by third-parties for diligence and other services including, for example, fees and expenses of any legal, financial, accounting, advisory, consulting or other advisors or lenders, investment banks and other financing sources in connection with arranging financing for transactions that are not consummated, any travel and accommodation expenses and any deposits or down payments that are forfeited in connection with, or amounts paid as a penalty for, unconsummated transactions (“Broken Deal Expenses”), and (ii) other Fund expenses as described under “Fund Expenses”.
Fund Expenses	Neutral	Except as noted under “General Partner Expenses” and to the extent that none of the General Partner or any of its affiliates has elected to pay such expenses, the Fund will pay Broken Deal Expenses and all expenses related to the operation of the Fund, including (i) fees, costs and expenses directly related to the purchase, holding, and sale of investments, (ii) expenses associated with portfolio and risk management, including hedging, (iii) interest, debt service fees, origination fees or other amounts payable in connection with the incurrence of any financial leverage or Interim Financing (defined below), (iv) expenses of any consultants, counsel, and accountants, (v) any insurance, indemnity, or litigation expense and certain taxes, (vi) expenses of the Advisory Committee and its members and observers, (vii) costs of any information meetings of the Partners, (viii) any fees or other governmental charges levied against the Fund, (ix) out-of-pocket expenses incurred in connection with legal and regulatory compliance with U.S. federal, state, local, non-U.S. or other law and regulation relating to the Fund’s activities (including, without limitation, expenses relating to the preparation and filing of Form PF, Form SHLA and/or other regulatory filings of KAM relating to the Fund’s activities, filings with the U.S. Commodity Futures Trading Commission, and compliance with the E.U. Alternative Investment Fund Managers Directive), (x) expenses incurred in connection with any tax audit or investigation of the Fund and expenses associated with the Fund’s administrative and reporting costs, financial statements and tax returns (including the cost of a third-party administrator that provides accounting and administrative services to the Fund) (xi) a proportionate share of third-party expenses incurred in connection with the preparation of financial statements, tax returns, K-1s, administration of assets, financial

planning and treasury activities, together with technology and other administrative support therefor, (xii) allocable fees and expenses of KKR Capstone, (xiii) principal, interest on and fees and expenses arising out of, all borrowings made by the Fund and (xiv) expenses of winding-up, liquidating and terminating the Fund. In addition to the foregoing, the Fund will bear reasonable expenses relating to costs associated with information technology and data subscription services used by the Advisor and its affiliates in providing its services to the Fund ("information technology costs"), including costs associated with computer software or hardware, electronic equipment or information technology services purchased from third-party vendors, including risk analysis software and costs and expenses incurred with respect to research publications, materials, equipment and services.

Generally, out-of-pocket expenses associated with completed transactions are expected to be reimbursed by the seller or the investment or capitalized as part of the acquisition price of the transaction.

Other Fees; Management Fee Offset	Neutral	The Advisor or its affiliates may be paid transaction fees, including arranging, originating and structuring fees, and monitoring fees in connection with the purchase, monitoring or disposition of the Fund's investments, and the Advisor may be entitled to receive "break-up" or similar fees in connection with unconsummated transactions ("Other Fees"). For any management fee period, the management fee payable by the Fund with respect to each Limited Partner will be reduced, but not below zero, by an amount (the "Reduction Amount") equal to such Limited Partner's allocable portion of the Fund's share of 100% of such net Other Fees received during the immediately preceding management fee period. The Reduction Amount will be reduced by any allocable portion of any Fund expenses (including Broken Deal Expenses) that the General Partner or its affiliates previously elected to bear instead of calling capital from the Fund and will not take into account such portion of the Fund's share of the relevant Other Fees as is allocable to the General Partner's interest in the Fund or to the interest of any Limited Partners that are not subject to management fees. After such credits have eliminated all future management fees with respect to a Limited Partner, the remaining amount of such credits up to the amount of management fees previously paid and not otherwise returned (see "Priority of Distributions"), will be refunded to the Fund for distribution to the Limited Partner. Thereafter, the remaining amount will be returned to the Limited Partner to the extent of management fees previously paid, or credited to the extent of management fees payable, in connection with any other KKR-sponsored investment fund in which it invests. If more than one KKR-sponsored investment fund, vehicle or account (or person whose investment was offered, sold, placed, underwritten, syndicated, solicited or otherwise arranged by a broker-dealer affiliated with KKR) has participated in an investment in respect of which transaction or monitoring fees have been generated, or if more than one KKR-sponsored investment fund, vehicle or account (or person whose investment would have been offered, sold, placed, underwritten, syndicated, solicited or otherwise arranged by a broker-dealer affiliated

with KKR) would have participated in an unconsummated investment generating a break-up or similar fee, then only such portion of the fee that is fairly allocable to the Fund based on the nature of the transaction giving rise to the fee will be included in the management fee offset described above. In addition, KKR, KAM and their affiliates may receive from Portfolio Companies fees related to loan servicing and capital markets services at market rates, including syndication, underwriting, arranging or similar fees paid in connection with the distribution or administration of debt or equity securities of Portfolio Companies or arranging financing for Portfolio Companies. KKR Capstone and RPM Energy Management LLC ("RPM") (neither of which is an affiliate of KKR) may also receive consulting fees from Portfolio Companies or the Fund at market rates. None of the foregoing fees will be credited against Fund management fees in the manner contemplated above.

Investment Guidelines	Neutral	Investments made after the Final Closing Date will be limited by the following investment guidelines, as provided for in the Partnership Agreement. Following the Final Closing Date, the Fund will: i. not invest an amount that exceeds 20% of the sum of (a) the total capital (including leveraged amounts) invested by the Fund in existing investments, (b) the aggregate unused Capital Commitments of the Fund and (c) any Retained Distributions being held by the Fund (collectively, the "Total Adjusted Capital"), in each case, determined as of the date of investment, in a single Portfolio Company and its affiliates (other than affiliations solely as a result of being under common control of the same investment fund sponsor); ii. not invest an amount that exceeds 40% of the Total Adjusted Capital, determined as of the date of investment, in Portfolio Companies based outside the United States, provided that the Fund will not invest in Portfolio Companies based in any country that the General Partner determines is an "emerging market"; iii. will not invest an amount that exceeds 35% of the Total Adjusted Capital, determined as of the date of investment, in Portfolio Investments that are not secured by a first priority lien over all or part of the assets of the relevant Portfolio Company; or iv. not make Portfolio Investments in any Portfolio Company in which KKR and/or its affiliates own or control more than 20% of the voting securities or KKR and/or its affiliates otherwise have a material influence on the management of such portfolio company ("KKR Affiliated Companies") as determined by the General Partner at the time of investment. Investments made on or prior to the Final Closing Date will be subject only to such diversification criteria as determined appropriate by the General Partner in good faith. Following the Final Closing Date, the General Partner shall not be in breach of any of the foregoing diversification guidelines with respect to investments made on or before the Final Closing Date and shall not be required to dispose of all or any

		portion of such investments in order to comply with such guidelines. The above investment guidelines will be applied to the Fund and any Parallel Funds on a combined basis, taking into account the invested capital, unused capital commitments, retained distributions and leveraged amount of such Parallel Funds, as applicable. The Fund's investment guidelines will be measured at the time of the Fund's initial acquisition of the relevant investment, are subject to the good faith interpretation of the General Partner and may be waived or modified by the General Partner with the consent of either the Advisory Committee or a majority in interest of the Limited Partners (and the limited partners of any Parallel Fund, as applicable). The Fund may engage in bona fide hedging transactions in connection with the acquisition, holding, financing, refinancing or disposition of investments, including investments in exchange-traded funds, foreign currency hedging, swaps (including credit default swaps), short sales and other derivative contracts or instruments. Any amounts paid by the Fund for or resulting from such sales, contracts or instruments will be treated as described in the Partnership Agreement.
Leverage	Neutral	The Fund is expected to borrow, provide credit support or guarantee loans or other extensions of credit for investment and other related purposes including, without limitation, by entering into one or more revolving credit facilities or any other debt or leverage facility or facilities or other loans or extensions of credit provided by one or more lenders, including KKR, KAM and their respective affiliates. In addition, the Fund may enter into arrangements with one or more lenders, including KKR, KAM and their respective affiliates, for cash management purposes and to provide interim financing prior to the receipt of capital contributions ("Interim Financing"). The Fund may also incur direct or indirect leverage through its hedging activities as described in "Investment Guidelines." Unless otherwise agreed by the Advisory Committee or a majority in interest of the Limited Partners, the Fund will not incur any borrowings or provide guarantees (other than Interim Financing or any leverage incurred in connection with hedging activities) that would result in the ratio of the outstanding principal amount of such borrowings or guarantees that are recourse to the Fund on the one hand, and the aggregate capital contributions made by the Partners to the Fund on the other, each as of any relevant date of determination, exceeding 2.5:1. Borrowings will be made on such terms, taken as a whole, as the General Partner determines to be appropriate.
Use of Distributable Cash to Fund Borrowings	Neutral	Borrowings by the Fund may be repaid using net proceeds from investments reducing amounts available for distribution to Partners and/or for reinvestment by the Fund.
Pledge	Neutral	In connection with any borrowing or other financing transactions described above in "Leverage" or otherwise contemplated in the Partnership Agreement, each of the General Partner, on its own behalf or on behalf of the Fund, and the Fund shall have the right, at its option, to (i) pledge any or all of the assets of the Fund including the Partners'

		unused Capital Commitments as security for any financing incurred by the Fund (or the General Partner, on behalf of the Fund), as provided for in the Partnership Agreement and (ii) assign to the lender the right to deliver drawdown notices with respect to capital contributions, the proceeds of which will be used to pay overdue amounts in respect of any such financing and enforce all available remedies under the Partnership Agreement against Limited Partners that fail to make such capital contributions pursuant to drawdown notices and declare and treat such Limited Partners as defaulting Limited Partners. Each Partner shall, upon written request from the General Partner (in the General Partner's discretion), for the benefit of any lender, acknowledge its obligations to make capital contributions to the Fund pursuant to the Partnership Agreement (in such form as may be reasonably requested by the lenders and approved by the General Partner) and execute and deliver such documents as may be reasonably required to acknowledge and perfect the security interest in its unused Capital Commitment as provided in the Partnership Agreement.
Fund Term	Neutral	The Fund will be dissolved on the sixth anniversary of the First Closing Date (unless dissolved earlier in accordance with the Partnership Agreement), subject to up to two one-year extensions by the General Partner in its sole discretion, provided that the term of the Fund may be extended beyond such date with the consent of the Advisory Committee or a majority in interest of Limited Partners.
Allocation of Investment Opportunities	Neutral	From time to time, investment opportunities may arise that are suitable for investment both by the Fund and other investment funds, vehicles or accounts managed or advised by KKR, KAM and their affiliates, including proprietary KKR and/or KAM accounts. Accordingly, the Fund may from time to time co-invest alongside such funds, vehicles and accounts in such investments. KKR, KAM and their affiliates will allocate such investment opportunities between the Fund and such funds, vehicles and accounts in a manner that is consistent with an allocation methodology established by KKR, KAM and their affiliates designed to ensure allocations of such opportunities are made on a fair and equitable basis over time. In determining such allocations, KKR, KAM and their affiliates will take into account such factors as they deem appropriate, which may include, for example and without limitation, investment objectives, available capital, the timing of capital inflows and outflows and anticipated capital commitments and subscriptions, applicable concentration limits and other investment restrictions, mandatory minimum investment rights and other contractual obligations applicable to participating funds, vehicles and accounts and their investors, portfolio diversification, tax efficiencies and potential adverse tax consequences, regulatory restrictions applicable to participating funds, vehicles and investors, policies and restrictions (including internal policies and procedures) applicable to participating funds, vehicles and accounts, the avoidance of odd-lots or cases where a pro rata allocation would result in a de minimis allocation to one or more participating funds, vehicles and accounts, the potential dilutive effect of a new position, the overall risk profile of a portfolio, and other factors

		deemed relevant by KAM.
Transactions With Affiliates	Neutral	The Fund and any Portfolio Company may, from time to time, participate in transactions with the General Partner and its affiliates, or transactions where a KKR affiliate that is a regulated broker-dealer is acting as agent, broker, principal, arranger or syndicate manager including for the Fund or a Portfolio Company or on the other side of the transaction or for other parties in the transaction, only to the extent that the General Partner believes in good faith that the terms of such transactions, taken as a whole, are appropriate for the Fund. In addition, any borrowings or other financing incurred by the Fund from KKR will be on overall terms that the General Partner determines in good faith are on an arm's length basis and are no less favorable to the Fund than would be obtained in a transaction with an unaffiliated party. The foregoing obligations shall be interpreted in good faith by the General Partner and, for the avoidance of doubt, shall not apply to transactions among Portfolio Companies.
Reports	Neutral	Limited Partners will receive: (i) annual audited financial statements of the Fund prepared in accordance with generally accepted accounting principles in the United States; (ii) annual and quarterly account updates, including a detailed schedule of investments; (iii) tax information regarding the Fund that is reasonably available to the General Partner and is necessary for the completion of each Limited Partner's tax return; and (iv) quarterly financial information regarding the Fund. Limited Partners may be required to file an extension on their individual tax returns and will bear any costs associated therewith. All notices, reports and other communications may be delivered to the Limited Partners electronically as provided for in the Partnership Agreement and Subscription Agreement.
Confidentiality	Negative	The Partnership Agreement contains confidentiality provisions applicable to the Limited Partners. To the extent that the General Partner believes in good faith that (i) a Limited Partner has violated or is reasonably likely to violate the confidentiality provisions of the Partnership Agreement or (ii) there is a reasonable likelihood that, as a result of the U.S. Freedom of Information Act ("FOIA"), any state public records access law, any state or other jurisdiction's laws similar in intent or effect to FOIA, or any other similar U.S. or non-U.S. statutory or regulatory requirement, a Limited Partner may be required to disclose information relating to the Fund, its affiliates, and/or any Portfolio Company, the General Partner may, in order to prevent any such potential disclosure, withhold all or any part of the information otherwise to be provided to such Limited Partner. *HEK recommends that LPs potentially subject to FOIA requests understand the impact this Confidentiality clause will have on their ability to receive information regarding the investment in advance of any commitment to the Fund.*

Transferability of Interests	Neutral	A Limited Partner's interest in the Fund may not be sold, transferred, pledged or assigned (in whole or in part) without the prior written consent of the General Partner, which may be given or withheld in its sole discretion, except that the General Partner will not unreasonably withhold or delay its consent to the transfer by a Limited Partner to an affiliate of such Limited Partner and to the admission of such affiliate as a substitute Limited Partner, so long as such affiliate meets certain minimum requirements set forth in the Partnership Agreement.
Withdrawal; Excuse and Exclusion from Certain Investments	Neutral	Generally, a Limited Partner will not be permitted to withdraw from the Fund or to withdraw any portion of its capital account. A Limited Partner will not be obligated to make all or any part of any contribution toward any investment to the extent that the making of such investment and/or contribution, as applicable, is, in the opinion of counsel reasonably satisfactory to the General Partner (which opinion may be waived by the General Partner), reasonably likely to be illegal for such Limited Partner. Certain types of Limited Partners, including in particular certain regulated Limited Partners, may be excused from making a particular investment under certain circumstances, as set forth in the Partnership Agreement. A Limited Partner will not be permitted to contribute capital toward any investment if the General Partner determines that such contribution is reasonably likely to result in a violation of law or have certain material adverse effects on the Fund, any Partner or any Portfolio Company. In addition, as permitted under the Partnership Agreement, the General Partner may agree with a Limited Partner that such Limited Partner may, for any reason, be excused from participation in certain types of investments to the extent made by the Fund. Depending on the scope of such exclusion and the manner in which such investments would otherwise be made or held by the Fund, it may not be practicable to exclude such Limited Partner from such investment, and accordingly, such exclusion rights will result in preventing the Fund from making such investments. The General Partner will in good faith take such considerations into account when considering such exclusion requests. It is possible, however, that exclusion rights have an impact on the Fund that is more material than anticipated by the General Partner at the time such exclusion rights are granted. The excuse or exclusion of a Limited Partner for any of the reasons specified in this paragraph will, in any event, result in the Partners participating in such investment making contributions in larger amounts and having greater sharing percentages in such investment than if all Partners had made contributions toward such investment pro rata in proportion to their respective Capital Commitments. An excused or excluded Limited Partner's Capital Commitment will not be reduced as a result of such excuse or exclusion.
Indemnification	Neutral	The Fund will indemnify the General Partner and its affiliates (including the Advisor, KKR and KAM), the Senior Advisors, Capstone Executives, RPM Executives and the members, partners, shareholders, directors, officers, employees, and (if specifically agreed by the General Partner) agents of each of them (each, an "Indemnitee"), against claims, liabilities, costs and expenses, including indemnity expenses and legal fees, incurred by such Indemnitee arising out of or in

AON Hewitt

		connection with such Indemnitee's activities related to the Fund, the Feeder Funds, any KKR Vehicle or any Alternative Vehicle, unless (i) incurred as a result of their own gross negligence, willful misconduct, fraud or a material breach of a material term of the Partnership Agreement or (ii) the claim arose solely out of a dispute between or among the General Partner, the Advisor or their respective members, officers, employees, partners (other than Limited Partners) or shareholders (as the case may be). The assets of the Fund, including unused Capital Commitments of the Partners, will be available to satisfy these indemnification obligations and Partners may be required to return distributions to satisfy such obligations. The Fund may agree to indemnify and exculpate certain placement agents, finders and advisors engaged in connection with the placement of interests in the Fund to the maximum extent permitted by law.
Removal of General Partner	Negative	Following an event constituting "Cause" (as defined in the Partnership Agreement), Limited Partners representing at least two-thirds of aggregate Capital Commitments (excluding KAM or KKR affiliates, other than any vehicles controlled directly or indirectly by KAM or KKR established for the principal benefit of one or more investors that are not KAM or KKR affiliates) may either remove the General Partner or dissolve and liquidate the Fund, in the manner set forth in the Partnership Agreement. *HEK prefers to see a No Fault Divorce clause.*
Alternative Investment Vehicles	Neutral	If the General Partner determines that for legal, tax, regulatory or other reasons, an investment should be made or held through an alternative investment structure (each, an "Alternative Vehicle"), the General Partner may require any Partner or Partners to make or hold such investment through a separate entity or entities pursuant to an agreement substantially similar in form and substance to the Partnership Agreement (with such changes as are warranted by the law of the jurisdiction in which such Alternative Vehicle is formed, or by the form of such entity, or to address the legal, tax or regulatory or other reasons for which the Alternative Vehicle was established, as reasonably determined by the General Partner in consultation with counsel; provided that any material change from the Partnership Agreement (or previously approved agreement for such Alternative Vehicle) must be approved by the Advisory Committee or a majority in interest of Limited Partners). The General Partner may, where it determines it to be appropriate, structure an Alternative Vehicle to hold more than one investment and may admit co-investors into the Alternative Vehicle, so long as such admission does not have an adverse effect on the Partners participating in such Alternative Vehicle. An investment may be transferred among the Fund and Alternative Vehicles, or between Alternative Vehicles, after the consummation of such investment. Limited Partners in the Fund and investors in Parallel Funds may be required to invest through the same Alternative Vehicle. Notwithstanding the foregoing, an Alternative Vehicle may provide for allocations, distributions and clawback obligations pursuant to its governing agreement that are equivalent to the allocation, distribution

		and clawback provisions described in the Partnership Agreement, without regard to the Fund or any other Alternative Vehicle and any net income, net losses, distributions or capital contributions relating thereto (a “Disaggregated Vehicle”) if, in the determination of the General Partner, aggregating such allocations, distributions and clawback obligations with those of the Fund or any other Alternative Vehicle would increase the likelihood of any tax consequences or legal or regulatory constraints or create contractual or business risk that would be undesirable for the Fund or any of its Partners; provided that the allocations, distributions and clawback obligations with respect to each Disaggregated Vehicle will be aggregated with those of each other Disaggregated Vehicle unless, in the determination of the General Partner, aggregating such allocations, distributions and clawback obligations with such other Disaggregated Vehicles would increase the likelihood of any tax consequences or legal or regulatory constraints or create contractual or business risk that would be undesirable for any Alternative Vehicle, the Fund or any of the Partners.
Parallel Funds	Neutral	The General Partner may establish separate investment vehicles (“Parallel Funds”) for different categories of investors to accommodate the legal, tax, or regulatory requirements or internal investment policy or guideline concerns of such investors, or to facilitate the making of investments by the General Partner and/or KKR Personnel, Senior Advisors, Capstone Executives, RPM Executives and other associated persons of KKR, KAM or their respective affiliates or their designees, which will generally co-invest proportionately in all, or certain sub-categories of, the investments of the Fund on the basis of their available capital (including leveraged amounts thereof, where applicable) and any other financing available to the Fund and such Parallel Funds, except that follow-on investments in existing portfolio companies generally will be funded on the basis of the sharing percentages of the Fund and such Parallel Funds in the original investment. Such investment vehicles will co-invest on substantially the same terms and conditions as the Fund, subject to applicable legal, tax, or regulatory considerations, and will generally share proportionately in applicable expenses. The terms of any Parallel Fund may differ from those of the Fund. For example, KKR Vehicles established as Parallel Funds may not be charged management fees and/or be subject to carried interest distributions. To accommodate the requirements of certain investors, KAM may, in its sole discretion, establish a Parallel Fund that will not incur financial leverage for the purposes of making investments (the “Unlevered Fund”). The Unlevered Fund will generally co-invest alongside the Fund in every Portfolio Investment pro rata on the basis of available capital (including leveraged amounts thereof where applicable). From time to time the Unlevered Fund may also invest in certain investment opportunities that the Fund does not participate in because of investment limitations or other restrictions imposed on the Fund pursuant to the terms of the credit facilities or instruments of indebtedness entered into by the Fund. The Limited Partners of the Fund and investors of the Parallel Funds will generally vote on all matters on a combined basis as set forth in the

		Partnership Agreement. References herein to a "majority (or other specified percentage) in interest" of the Limited Partners generally refer to such percentage of the aggregate interests in the Fund together with the Parallel Funds.
Feeder Funds	Neutral	In order to accommodate certain legal, regulatory, or tax requirements of investors (including natural persons) who wish to participate in the Fund or to facilitate the investment in the Fund by the General Partner, KKR Personnel, Senior Advisors, Capstone Executives, RPM Executives and other associated persons of KKR, KAM or their respective affiliates or their designees, the General Partner may establish feeder investment entities for such investors (each, a "Feeder Fund") and require such investors to hold their interests in the Fund indirectly through one or more Feeder Funds. Such Feeder Funds will invest as Limited Partners in the Fund. Investors in a Feeder Fund will generally participate indirectly in the Fund on the same economic terms as the other investors in the Fund; provided that any Feeder Fund established for KKR Personnel, Senior Advisors, Capstone Executives or other associated persons of KKR, KAM or their respective affiliates or their designees, may be on such terms as the General Partner agrees in its sole discretion. The terms of any Feeder Fund will be contained in the limited partnership agreement or other applicable governing documents thereof, and any terms described in this Memorandum are qualified in their entirety by such documents to the extent applicable to any Feeder Fund investors. For example, KKR Vehicles established as Feeder Funds may not be charged management fees and/or be subject to carried interest distributions, and may accept additional capital commitments on an annual basis as set forth under "Participation by KKR." Any taxes incurred by a Feeder Fund, and any other expenses incurred by such Feeder Fund, which the General Partner determines in its discretion are allocable to such Feeder Fund, will be borne solely by such Feeder Fund in accordance with its limited partnership agreement or other applicable governing documents thereof.
ERISA Considerations	Neutral	The Fund will require certain representations or assurances from Limited Partners that are subject to the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The General Partner will use reasonable best efforts to structure the Fund so that it should not be treated as holding assets of an employee benefit plan pursuant to ERISA. Each ERISA Limited Partner should consult its legal advisor concerning the consequences under ERISA of an investment in the Fund before making an investment in the Fund. Until the closing date of the Fund's first portfolio investment, "benefit plan investors" may be required to make direct payments in respect of organizational expenses and Fund expenses, and ERISA Limited Partners (as defined in the Partnership Agreement) may be required to fund their capital contributions for the Fund's first Portfolio Investment into an escrow account as provided for in the Partnership Agreement. All other Limited Partners also may be required to pay the management fee, organizational expenses, and Fund expenses directly to the

General Partner (or any affiliates) until the Fund makes its first Portfolio Investment.

Tax Considerations	Neutral	As is generally the case for similar investment funds, an investment in the Fund will give rise to a variety of complex U.S. federal income tax, foreign tax, and other tax issues for Limited Partners. Certain of those issues may relate to special rules applicable to certain types of investors, such as tax-exempt entities, life insurance companies, banks, individuals, dealers in securities, and non-U.S. persons and entities. Moreover, income or gain from investments held by the Fund may be subject to income or other taxes in jurisdictions outside the United States. The Partnership Agreement will authorize the Fund to withhold or otherwise pay taxes attributable to one or more Limited Partners and such taxes may not be creditable or deductible by the Fund or the Partners. Such taxes together with any taxes otherwise paid by the Fund or withheld from any amount payable to the Fund will be treated as a distribution to the relevant Partners. Where the General Partner has permitted a Limited Partner to participate in an investment through an Alternative Vehicle, any taxes borne by (including amounts withheld on payments to) that Alternative Vehicle will similarly be treated as a distribution to the Limited Partner. Each Limited Partner will also be required to indemnify the Fund for any tax obligations imposed on the Fund with respect to such Limited Partner's share of an investment. Prospective Limited Partners are urged to consult their own tax advisors with specific reference to their own situations concerning an investment in the Fund.
Advisory Committee	Neutral	The General Partner will select an advisory committee (the "Advisory Committee") consisting of one or more members unaffiliated with the General Partner, representing certain investors in the Fund (including any Parallel Fund or any Feeder Fund). Limited Partners (other than feeder funds managed by third parties) with a Capital Commitment of at least $75 million are entitled to have a representative on the committee. The Advisory Committee will review certain conflicts of interest and other matters that are presented to it by the General Partner, as set forth in the Partnership Agreement. As described in the Partnership Agreement, the General Partner will provide the Advisory Committee with a summary report regarding (i) on at least an annual basis, regulated broker-dealer fees paid by portfolio companies to KKR affiliates, fees paid by portfolio companies to KKR Capstone and RPM and any leverage provided by KKR, KAM or their affiliates to the Fund and (ii) on a quarterly basis, Other Fees paid to KKR affiliates by portfolio companies. The Advisory Committee will have the authority to approve (or, in certain cases where required by the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act"), revoke approval for) matters on behalf of the Fund for purposes of the Advisers Act.
Non-U.S. Limited Partners	Neutral	Each prospective non-U.S. Limited Partner should consult its own tax and other advisors in determining the possible tax, exchange control or other consequences to it under the laws of the jurisdictions of which it is a citizen, resident or domiciliary, in which it conducts business or in

Aon Hewitt

		which it otherwise may be subject to tax, of the purchase and ownership of interests in the Fund.
Amendments; Side Letters	Neutral	Except as required by law and subject to certain limitations set forth in the Partnership Agreement, the Partnership Agreement may be amended from time to time with the consent of the General Partner and a majority in interest of the Limited Partners. In certain circumstances described in the Partnership Agreement, the General Partner may unilaterally amend the Partnership Agreement (including to accommodate changes negotiated with Limited Partners at subsequent closings, subject to certain limitations). The Fund or the General Partner, without any further act, approval or vote of any Partner, may enter into side letters or other writings with individual Limited Partners which have the effect of establishing rights under, or altering or supplementing, the terms of the Partnership Agreement or the Subscription Agreement. Any rights established, or any terms of the Partnership Agreement or any Subscription Agreement altered or supplemented in a side letter or similar agreement with a Limited Partner will govern with respect to such Limited Partner notwithstanding any other provision of the Partnership Agreement or any Subscription Agreement. Side letters or other similar agreements relating to the Fund (or the forms thereof with any Limited Partner identifying information redacted or otherwise omitted) will be made available to any Limited Partner upon request.
Independent Auditor	Neutral	Deloitte & Touche LLP
Counsel	Neutral	Linklaters LLP
Subscription Matters	Neutral	Persons interested in investing in the Fund are required to complete and return to the General Partner the subscription agreement for the Fund (the “Subscription Agreement”), a copy of which will be made available to each prospective investor. Subscriptions may be rejected in whole or in part in the General Partner’s discretion and will be accepted only from persons who are “accredited investors” under the 1933 Act, “qualified purchasers” under the U.S. Investment Company Act of 1940, as amended (the “1940 Act”), and meet other applicable legal and regulatory criteria.

AON Hewitt

Appendices

Performance Exhibits

KKR Lending Partners
(in millions)

Company	Entry Date	Exit Date	Capital Invested	Realized Value	Unrealized Value	Total Value	Ownership %	Gross TVPI	Gross IRR	Gain Concentration
Asset Acceptance Capital Corp.	Nov-11	Jun-13	$21.8	$26.7	$0.0	$26.7	N/A	1.2x	15.2%	4.2%
Skyfunding Limited	Mar-12	Mar-13	24.0	28.4	0.0	28.4	N/A	1.2	18.3%	3.8%
TelX Group, Inc., The	Mar-12	Oct-12	13.9	14.6	0.0	14.6	N/A	1.1	9.3%	0.6%
Wastequip, LLC	Jun-12	Aug-13	24.2	27.2	0.0	27.2	N/A	1.1	11.1%	2.6%
American Gaming Systems LLC	Aug-12	Dec-13	33.4	40.0	0.0	40.0	N/A	1.2	16.7%	5.7%
Willbros United States Holdings, Inc._	Dec-12	Aug-13	12.2	13.6	0.0	13.6	N/A	1.1	19.3%	1.2%
Mitel US Holdings, Inc.	Feb-13	Jan-14	59.3	66.7	0.0	66.7	N/A	1.1	16.6%	6.4%
Digital Insight Corporation	Aug-13	Oct-13	20.2	21.3	0.0	21.3	N/A	1.1	30.6%	0.9%
KKR Lending Partners - Realized			**$209.0**	**$238.5**	**$0.0**	**$238.5**		**1.1x**	**15.8%**	**25.4%**
MSX International, Inc.	Feb-12	N/A	$40.0	$17.9	$29.3	$47.2	N/A	1.2x	9.2%	6.2%
Education Management LLC	Apr-12	N/A	24.1	5.2	17.5	22.7	N/A	0.9	-3.1%	-1.2%
Things Remembered, Inc.	May-12	N/A	49.8	8.9	49.0	57.9	N/A	1.2	9.3%	7.0%
Data Device Corporation	Jun-12	N/A	39.4	9.0	37.1	46.1	N/A	1.2	9.3%	5.8%
Edelman Financial Group Inc	Jun-12	N/A	42.5	16.6	31.1	47.7	N/A	1.1	9.1%	4.5%
KeyPoint Government Solutions, Inc.	Dec-12	N/A	44.1	10.7	39.2	49.9	N/A	1.1	9.1%	5.0%
Backoffice Associates LLC	Dec-12	N/A	36.6	7.0	34.2	41.2	N/A	1.1	8.8%	4.0%
Hanley Wood, LLC	Jan-13	N/A	53.9	5.6	52.9	58.5	N/A	1.1	9.0%	4.0%
Dutch LLC	Mar-13	N/A	35.4	4.2	35.9	40.1	N/A	1.1	10.8%	4.1%
Uralita SA	Apr-13	N/A	9.7	0.7	10.1	10.8	N/A	1.1	10.1%	0.9%
Floor and Decor Outlets of America, Inc.	May-13	N/A	32.3	3.3	31.5	34.8	N/A	1.1	6.9%	2.2%
Flagstone Foods Holding Corp	May-13	N/A	16.1	1.5	16.1	17.6	N/A	1.1	8.4%	1.3%
Eddie Bauer Holdings Inc	Jun-13	N/A	32.4	7.3	29.3	36.6	N/A	1.1	14.0%	3.6%
Polyconcept Finance BV	Jun-13	N/A	7.7	0.8	7.5	8.3	N/A	1.1	8.0%	0.5%
Jacuzzi Brands Inc	Jul-13	N/A	30.0	3.1	28.9	32.0	N/A	1.1	5.1%	1.7%
Distribution International Inc	Jul-13	N/A	36.5	3.1	36.6	39.7	N/A	1.1	9.6%	2.8%
Sportsman's Warehouse Inc	Sep-13	N/A	47.8	18.8	33.1	51.9	N/A	1.1	12.0%	3.5%
Mast Industries Inc	Sep-13	N/A	75.0	21.3	59.1	80.4	N/A	1.1	11.7%	4.7%
Willbros United States Holdings, Inc.	Sep-13	N/A	29.0	6.0	27.0	33.0	N/A	1.1	19.7%	3.4%
MCS AMS Sub-Holdings LLC	Oct-13	N/A	43.7	2.9	42.9	45.8	N/A	1.0	7.8%	1.8%
Bluestem Brands Inc	Dec-13	N/A	28.2	6.0	24.3	30.3	N/A	1.1	14.8%	1.8%
Louisiana Public Facilities Authority	Dec-13	N/A	30.2	2.0	31.4	33.4	N/A	1.1	20.5%	2.8%
OAG Holdings LLC	Dec-13	N/A	12.0	0.5	13.0	13.5	N/A	1.1	26.8%	1.3%
TriMark USA Inc	Feb-14	N/A	39.1	1.4	39.4	40.8	N/A	1.0	13.5%	1.5%
Greystone & Co Inc	Mar-14	N/A	20.1	0.5	20.3	20.8	N/A	1.0	15.1%	0.6%
Tweddle Group Inc	Apr-14	N/A	34.3	13.9	21.4	35.3	N/A	1.0	14.2%	0.9%
Pacific Union Financial LLC	Jun-14	N/A	11.1	0.2	11.0	11.2	N/A	1.0	14.7%	0.1%
KKR Lending Partners - Unrealized			**$901.0**	**$178.4**	**$809.1**	**$987.5**		**1.1x**	**9.4%**	**74.6%**
Total			**$1,110.0**	**$416.9**	**$809.1**	**$1,226.0**		**1.1x**	**10.5%**	

Pre-Fund Deals
(in millions)

Company	Entry Date	Exit Date	Capital Invested	Realized Value	Unrealized Value	Total Value	Ownership %	Gross TVPI	Gross IRR	Gain Concentration
Neff Corp.	Feb-05	Jun-05	$6.7	$6.8	$0.0	$6.8	0%	1.0x	0.0%	0.1%
Carey International, Inc.	May-05	May-07	17.2	19.8	0.0	19.8	0%	1.2	0.0%	1.1%
ACG/Aviation Capital Group	Jun-05	Jun-07	15.0	17.1	0.0	17.1	0%	1.1	7.3%	0.9%
AERLS 2005-1A Class C1	Sep-05	May-07	11.3	12.1	0.0	12.1	0%	1.1	9.4%	0.4%
AERLS 2005-1A Class D1	Sep-05	May-07	5.6	6.7	0.0	6.7	0%	1.2	13.2%	0.5%
FCI USA, Inc.	Mar-06	Oct-12	19.5	25.6	0.0	25.6	0%	1.3	0.0%	2.6%
NewCastle Investment Corporation	Jul-06	Jan-09	12.8	14.8	0.0	14.8	0%	1.2	0.0%	0.9%
Infor Global Solutions Intermediate Holdings Lim	Aug-06	Apr-12	356.1	404.7	0.0	404.7	0%	1.1	0.0%	20.7%
Green Tree MH Depositor II LLC	Sep-06	Oct-08	12.1	14.0	0.0	14.0	0%	1.2	0.0%	0.8%
Maxum Petroleum, Inc.	Sep-06	Jan-09	18.8	21.7	0.0	21.7	0%	1.2	0.0%	1.2%
Grosvenor Capital Management Holdings LLP	Dec-06	Jan-14	102.0	117.2	0.0	117.2	0%	1.1	0.0%	6.4%
Sirsi Corporation	Feb-07	Oct-11	2.5	3.5	0.0	3.5	0%	1.4	0.0%	0.4%
Advance Food Company, Inc.	Mar-07	Sep-10	6.3	7.7	0.0	7.7	0%	1.2	7.0%	0.6%
Bi-Lo, LLC	Mar-07	Feb-10	37.5	43.8	0.0	43.8	0%	1.2	0.0%	2.7%
Modular Space Corporation	Apr-07	Feb-14	18.4	25.2	0.0	25.2	0%	1.4	0.0%	2.9%
Panther Re Holdings Limited	Jun-07	Feb-08	18.8	20.1	0.0	20.1	0%	1.1	0.0%	0.6%
IPC Systems, Inc.	Jun-07	May-14	13.8	17.1	0.0	17.1	0%	1.2	0.0%	1.4%
BNY ConvergEX Group, LLC	Jul-07	Apr-13	33.1	38.8	0.0	38.8	0%	1.2	0.0%	2.4%
PharmaNet Development Group, Inc.	Jun-09	Apr-10	21.9	25.7	0.0	25.7	0%	1.2	0.0%	1.6%
Grocery Outlet Inc.	Nov-09	Mar-11	34.2	39.5	0.0	39.5	0%	1.2	0.0%	2.3%
HUB International Limited	Nov-09	May-12	22.1	25.7	0.0	25.7	0%	1.2	0.0%	1.5%
NDS Finance Limited	Dec-09	Feb-11	27.5	31.3	0.0	31.3	0%	1.1	0.0%	1.6%
Easton-Bell Sports, Inc.	Dec-09	May-14	44.4	52.1	0.0	52.1	0%	1.2	0.0%	3.2%
Capella Healthcare, Inc.	Dec-09	Jun-10	7.5	8.3	0.0	8.3	0%	1.1	0.0%	0.4%
AerCap Funding I B.V.	Apr-10	May-12	47.3	69.5	0.0	69.5	0%	1.5	24.6%	9.5%
Eddie Bauer, Inc.	Apr-10	Jun-13	7.0	8.1	0.0	8.1	0%	1.2	0.0%	0.5%
Airvana Network Solutions Inc.	Sep-10	Mar-11	49.9	55.0	0.0	55.0	0%	1.1	22.4%	2.2%
National Vision, Inc.	Nov-10	Aug-12	22.2	26.8	0.0	26.8	0%	1.2	0.0%	2.0%
AerCap Funding II B.V.	Dec-10	May-12	17.3	22.7	0.0	22.7	0%	1.3	25.0%	2.3%
OnCore Manufacturing LLC	Dec-10	Oct-11	23.4	27.0	0.0	27.0	0%	1.2	0.0%	1.5%
KeyPoint Government Solutions, Inc.	Jan-11	Dec-12	10.9	12.7	0.0	12.7	0%	1.2	0.0%	0.8%
American Home Mortgage Servicing, Inc.	Jan-11	May-11	11.3	11.5	0.0	11.5	0%	1.0	9.0%	0.1%
California Pizza Kitchen, Inc.	Aug-11	Mar-13	36.9	41.6	0.0	41.6	0%	1.1	0.0%	2.0%
Asset Acceptance Capital Corp.	Nov-11	Jun-13	35.1	43.0	0.0	43.0	0%	1.2	0.0%	3.4%
Pre-Fund Deals - Realized			**$1,125.9**	**$1,317.1**	**$0.0**	**$1,317.1**		**1.2x**	**8.7%**	**81.2%**
PEAKS	Jan-10	N/A	$31.9	$21.7	$17.7	$39.4	0%	1.2x	0.0%	3.2%
Aspect Software, Inc.	May-10	N/A	55.7	45.3	19.0	64.3	0%	1.2	7.2%	3.7%
Aspen Dental Management, Inc.	Nov-10	N/A	42.7	28.2	20.6	48.8	0%	1.1	0.0%	2.6%
The J Jill Group Inc	May-11	N/A	30.9	25.1	16.0	41.0	0%	1.3	0.0%	4.3%
Standard Chartered Bank - Singapore Division	Dec-11	N/A	26.3	10.2	27.9	38.1	0%	1.5	0.0%	5.0%
Pre-Fund Deals - Unrealized			**$187.5**	**$130.4**	**$101.2**	**$231.6**		**1.2x**	**9.9%**	**18.8%**
Total			**$1,313.4**	**$1,447.6**	**$101.2**	**$1,548.7**		**1.2x**	**8.9%**	

Team Biographies

Scott C. Nuttall, Member, New York

Scott C. Nuttall joined KKR in 1996 and is head of KKR's Global Capital and Asset Management Group, which includes KKR Credit, KKR Capital Markets and KKR's Client and Partner Group. He is also actively involved in other companies and funds affiliated with the Firm. He has played a significant role in several of KKR's private equity investments. He is currently a member of the boards of directors of First Data Corporation and KKR Financial Holdings. Prior to joining KKR, he was with the Blackstone Group where he was involved in numerous merchant banking and merger and acquisition transactions. He received a B.S., summa cum laude, from the University of Pennsylvania. Mr. Nuttall serves as co-Chair of Teach for America - New York, a non-profit organization that aims to eliminate educational inequity.

Craig J. Farr, Member, New York

Craig J. Farr joined KKR in 2006 and serves as Head of KKR Asset Management LLC. Mr. Farr also oversees KKR's Capital Markets and Origination business, having driven the build-out of its structuring, capital markets advisory, distribution and credit origination resources. Mr. Farr is a member of the firm's Risk Committee. Prior to joining KKR, Mr. Farr spent 12 years at Citigroup Global Markets Inc. where he was promoted to Managing Director in 2001 and served as Co-Head of Citigroup's Equity Capital Markets team. Mr. Farr's previous responsibilities included Head of U.S. Convertible and Corporate Equity Derivative Origination. Mr. Farr began his career at Salomon Brothers in the investment banking division. Mr. Farr graduated with a Bachelor of Commerce from Queen's University in Kingston, Canada.

Nathaniel M. Zilkha, Member, New York

Nathaniel M. Zilkha joined KKR in 2007 and serves as the Co-Head of KKR Credit as well as the Co-Head of Special Situations. As the Co-Head of Credit, he works closely with the credit portfolio teams to help drive investment performance, strategy, business development and coordination across the platform. He is a member of the Leveraged Credit, Private Credit and Special Situations Investment Committees as well as KKR Credit's Portfolio Management Committee. Nat also spent time as a member of the Healthcare Private Equity Team in KKR's Menlo Park office. Prior to joining KKR, Mr. Zilkha was a member of the Principal Investment Area of Goldman, Sachs & Co., where he invested in private equity and principal debt transactions. He is currently on the board of directors of Hilding Anders, Harden Healthcare and QMH Limited. He was formerly on the boards of Oriental Brewery and Jazz Pharmaceuticals. Mr. Zilkha graduated cum laude from Princeton University.

Erik A. Falk, Member, New York

Erik A. Falk joined KKR in 2008 and serves as the Co-Head of Leveraged Credit. He is a member of the Leveraged Credit and Private Credit Investment Committees as well as KKR Credit's Portfolio Management Committee. Prior to joining KKR, Mr. Falk was a Managing Director at Deutsche Bank Securities Inc. where he was most recently Global Co-Head of the Securitized Products Group. In addition to leadership positions in recruiting and sitting on the boards of several of the bank's companies, Mr. Falk was a member of the Global Markets North American Management Committee and a member of the Complex Transactions Underwriting Committee for the bank. Mr. Falk co-ran a global group of over 220 people focused on principal investing, bond underwriting, direct lending and advisory business in securitized products. He was also the Global Head of the Special Situations Group where he launched a Global Principal Finance business focused on value trading and investing based on financial and asset valuation in both distressed and performing situations. Prior to that, Mr. Falk worked for Credit Suisse First Boston where he was a Director in their Asset Backed Securities department. He originated and executed capital market securitizations for banks, auto finance companies, airlines, student loan originators and CLO issuers. Mr. Falk graduated from Stanford University with an M.S. and B.S. in Chemical Engineering.

Christopher A. Sheldon, Member, San Francisco

Christopher A. Sheldon joined KKR in 2004 and serves as the Co-Head of Leveraged Credit. He is a member of the Leveraged Credit and Private Credit Investment Committees as well as KKR Credit's Portfolio Management Committee. Prior to his current role at KKR, Mr. Sheldon was responsible for opening KKR Credit's London office in 2007 and investing across a number of sectors within its credit businesses. Before joining KKR, Mr. Sheldon was a Vice President and Senior Investment Analyst with Wells Fargo's High Yield Securities Group; and previously worked at Young & Rubicam Advertising and at SFM Media Corporation in their media-planning department. He received a B.A. from Denison University. Mr. Sheldon currently serves as a member of the board of directors of SquashDrive, a member of the National Urban Squash and Education Association.

Jamie M. Weinstein, Member, San Francisco

Jamie M. Weinstein joined KKR in 2005 and serves as the Co-Head of Special Situations. He is also a member of the KAM Portfolio Management Committee. He is a member of the Special Situations Investment Committees as well as KKR Credit's Portfolio Management Committee. Previously, he was a portfolio manager with responsibility across KAM's credit strategies. Prior to joining KKR, Mr. Weinstein was with Tishman Speyer Properties as Director of Acquisitions for Northern California and The Boston Consulting Group as a strategy consultant. He received a B.S.E. degree cum laude in Civil Engineering and Operations Research from Princeton University and a M.B.A. from the Stanford University Graduate School of Business, where he was an Arjay Miller Scholar. Mr. Weinstein serves as a Trustee of the Contemporary Jewish Museum in San Francisco and is actively involved in the Jewish Community Federation of San Francisco on its Endowment Investment Committee and Capital Planning Committee.

Marc Ciancimino, Member, London

Marc Ciancimino joined KKR in 2008 and serves as the Head of European Private Credit. Prior to joining KKR, he was with GSC Group in their European Mezzanine business where he was a Managing Director responsible for sourcing and evaluating middle and large market transactions. After spending several years in the Leveraged Finance Group of Bankers Trust, Mr. Ciancimino moved to the principal side in 1999 investing in European mezzanine for Prudential in London as an Associate Director. Mr. Ciancimino started his career in finance at Citibank. He holds degrees from Cambridge and London Universities.

Lynette Vanderwarker, Managing Director, New York

Lynette M. Vanderwarker joined KKR in 2012 and is a member of the Client and Partner Group, serving as the lead product specialist for KKR Credit. Prior to joining KKR, Mrs. Vanderwarker spent ten years at BlackRock as a Managing Director where she was involved in a broad range of activities including leading the Fixed Income Strategy Group as well as structuring and marketing the firm's hedge fund strategies. Prior to BlackRock, she worked at Goldman Sachs Asset Management as a Vice President in the Global Manager Strategies Group. Ms. Vanderwarker earned a B.S. from Northwestern University and a M.P.A. from Columbia University.

Mark Brown, Director, London

Mark Brown joined KKR in 2013 and is a Director on KKR Credit's special situations team. Previously, Mr. Brown was a Managing Director at GSO Capital, where he was responsible for the day to day management of the fund's rescue financing efforts across Europe. Prior to joining GSO Capital, Mr. Brown was a Vice President in Deutsche Bank's Distressed Products Group where he focused on European distressed corporate loans and special situations. Mr. Brown holds a Postgraduate Honors degree in Finance and Accounting from the University of

Stellenbosch in South Africa.

Harlan B. Cherniak, Director, New York

Harlan B. Cherniak joined KKR in 2013 and is a Director on KKR Credit's special situations team. Prior to joining KKR, Mr. Cherniak was a senior investment professional at Venor Capital Management, an event-driven, credit opportunities fund. At Venor, he was actively engaged in the oversight of investments across the capital structure with a focus on the building materials, energy, financials, healthcare, power and utilities industries. In addition, he served on the informal creditor committees for a number of large U.S. restructurings. Mr. Cherniak previously worked at Longacre, JLL Partners and Credit Suisse. He received a B. S. from The Wharton School at the University of Pennsylvania and currently serves on the Board of Directors of the Youth Renewal Fund.

Scott A. Cullerton, Director, San Francisco

Scott A. Cullerton joined KKR in 2008 and is a Director on KKR Credit's Capital Solutions Group. Previously, Mr. Cullerton was a Vice President at Morgan Stanley Capital Partners where he was a founding member of Morgan Stanley's Private Equity group and was principally responsible for deal execution. Prior to that, he was an Associate in the Financial Sponsors Group at Morgan Stanley specializing in leveraged finance. Mr. Cullerton was also a Special Warfare Detachment Commander for the United States Navy. He received his M.B.A. from Harvard Business School and his B.S., cum laude, from Duke University in Electrical Engineering and Economics.

Dev Gopalan, Director, New York

Dev Gopalan joined KKR in 2010 and serves as the Head of US Private Credit. Previously, Mr. Gopalan worked at the Canada Pension Plan Investment Board as a Principal in Private Investments and Private Debt. Prior to that, he worked for Barclays Capital, Goldman Sachs and JPMorgan Chase in High Yield Capital Markets as well as High Yield/Leverage Loan Research covering a variety of sectors. He has a M.A. in International Finance from Brandeis University and a B.S. from Georgetown University.

Scott Henkin, Director, New York

Scott N. Henkin joined KKR in 2012 and is the lead portfolio manager for KKR Credit's long/short credit strategy. Prior to joining KKR, he was a Founding Partner and Co-Portfolio Manager of Ellis Lake Capital, an event-driven credit fund. Prior to that, Mr. Henkin was Portfolio Manager of D.E. Shaw & Co. LP's U.S. Credit Opportunities book and a Director at Fir Tree Partners. Scott holds a A.B., magna cum laude, from Harvard College and an M.B.A from Stanford Graduate School of Business.

Jeremiah S. Lane, Director, San Francisco

Jeremiah S. Lane joined KKR in 2005 and is a Director on KKR Credit's leveraged credit team. He also serves as the Co-Head of US Credit Research. He is involved with KKR's investment in Oriental Trading Company and currently serves on its board of directors. Prior to joining, Mr. Lane worked as an Associate in the Investment Banking/Technology, Media and Telecom Group at J.P. Morgan Chase. Mr. Lane holds an A.B. with honors in History from Harvard University.

Blaine MacDougald, Director, New York

Blaine MacDougald joined KKR in 2011 and is a Director on KKR Credit's leveraged credit team. He also serves as the Co-Head of US Credit Research. Previously, Mr. MacDougald was a Vice President with the Credit Opportunities Group at D.E. Shaw. He earned his B.S. in Mechanical Engineering from Queen's University, and is a CFA Charterholder.

Mubashir Mukadam, Director, London

Mubashir Mukadam joined KKR in 2011 and serves as the Head of European Special Situations. Prior to joining KKR, he was a Managing Director with York Capital in London where he helped build the European distressed and event-driven credit business. While at York Capital, Mr. Mukadam also led investments across a range of instruments and sectors and retained oversight over the trading of complex securities. Prior to joining York Capital, Mr. Mukadam was a Director in Deutsche Bank's distressed debt proprietary/broker-dealer group where he sourced and invested across single asset trading names, loan and liquidation claim portfolios, and distressed private equity opportunities. He started his career at Bankers Trust/Deutsche Bank in the Mergers and Acquisitions group. Mr. Mukadam holds an M.B.A. with honors from The Wharton School and a B.S. (Honors) from the University of Bath.

John M. Reed, Director, San Francisco

John M. Reed joined KKR in 2008 and is the Head of Credit Trading at KKR Credit. Prior to joining KKR, Mr. Reed was a Director at Bear Stearns & Co. in their institutional fixed income department. Previously, he was an analyst at BNY Capital Markets in the syndicated loan, private placement and high yield groups, and also worked in the Asset Strategies Group and The Office of Management & Budget of New York City. Mr. Reed received a B.A. in Business Administration and Psychology from the University of South Carolina and a Global Professional M.B.A. from the Fordham University School of Business Administration.

James Newman, Director, London

James Newman joined KKR in 2014 and is a Director in KKR Credit, with particular responsibility for European Credit Trading. Prior to joining KKR, Mr. Newman was a Director in JPMorgan's Institutional Fixed Income Sales division for 12 years covering banks and hedge fund clients dealing in High Yield, Distressed and Special Situations. Prior to JPMorgan, Mr. Newman was an analyst in Dresdner Bank's Credit Sales Group where he covered financial institutions on corporate credit and structured products. Mr. Newman holds a BSc in Business Administration from the University of Bath.

J. Douglas Tapley, Director, San Francisco

J. Douglas Tapley joined KKR in 2006 and is a Director on KKR Credit's Capital Solutions Group. Previously Mr. Tapley was a Vice President at GE Capital where he underwrote and led debt transactions for sponsored buyouts in the media, communications, and healthcare sectors. Previously, Mr. Tapley worked as a management consultant in the telecommunications and technology sectors. Mr. Tapley holds a B.A. from Rice University and an M.B.A. from Yale University.

Sharath Reddy, Director, San Francisco

Sharath Reddy joined KKR in 2014 and is a Director on KKR Credit's leveraged credit team. Previously, Mr. Reddy was a Principal on the investment team at Redwood Capital Management where he focused on investments in technology, telecommunications, business services, government services and media. He earned his B.S. in Computer Science from Stanford University and his MBA from the University of Pennsylvania.

Ryan L.G. Wilson, Director, San Francisco

Ryan L. G. Wilson joined KKR in 2006 and is a Director on KKR Credit's Risk and Portfolio Management Group. Prior to joining KKR, Mr. Wilson was with PricewaterhouseCoopers, serving a variety of clients in various industries. Mr. Wilson holds a B.A. with honors from Wilfrid Laurier University and a MAcc in Accounting from the University of Waterloo. Mr. Wilson is also a C.F.A. Charterholder and Chartered Accountant.

David Aung, Principal, San Francisco

David Aung joined KKR in 2010 and is a Principal on KKR Credit's Global Risk Analytics team. Prior to joining KKR, Mr. Aung spent six years at Trust Company of the West, where he focused on fixed income risk and attribution. Mr. Aung holds a B.A. in Economics from the University of California Los Angeles and a M.S. in Financial Engineering from Claremont Graduate University. He is a CFA charterholder and a member of the Charter Financial Analyst Institute.

Timothy Caflisch, Principal, London

Timothy Caflisch joined KKR in 2008 and is a Principal on KKR Credit's special situations team. Previously, he worked as an Associate in KKR Credit's leveraged credit team in San Francisco before moving to London in 2011. Mr. Caflisch graduated from Stanford University with a B.A. in Economics.

Andrew U. Cates, Principal, San Francisco

Andrew U. Cates joined KKR in 2010 and is a trader at KKR Credit. Prior to joining KKR, Andrew was an Associate at Bank of America Merrill Lynch where he traded Collateralized Loan Obligations in the Distressed Debt Group. Mr. Cates received a B.A. in Economics, Managerial Studies and Policy Studies from Rice University.

Cristobal Cuart, Principal, London

Cristobal Cuart joined KKR in 2010 and is a Principal on KKR Credit's private credit team. Previously, he was an Associate with Apollo Management, where he invested across industries in private equity and distressed debt transactions. Prior to that, he worked at Credit Suisse in the Financial Sponsors and Leverage Finance team where he underwrote debt for a number of leverage buyouts and established relationships with various financial sponsors. Mr. Cuart holds a Masters in Business from ESADE Business School, with a specialization in Finance.

Brian Dillard, Principal, New York

Brian Dillard joined KKR in 2006 and is a Principal on KKR Credit's special situations team. Prior to joining the special situations team, Mr. Dillard was a member of KKR's Private Equity team and has been involved with the investments in Harman International and Oriental Brewery. In 2008 and 2009, he worked in Hong Kong assisting in the development of KKR's Asian operations. Prior to joining KKR, he was at Morgan Stanley & Co. in its Mergers and Acquisitions Investment Banking Group, where he was involved in a number of merger, acquisition, and financing transactions. He holds an A.B. in Computer Science from Harvard College and an M.B.A. from Harvard Business School.

Michelle M. Domanico, Principal, San Francisco

Michelle M. Domanico joined KKR in 2010 and is a Principal on KKR Credit's leveraged credit team. Prior to joining KKR, Ms. Domanico spent two years in the Leveraged Finance and Financial Sponsors group at UBS Investment Bank, where she originated leveraged loan and high yield transactions for corporate and private equity clients in a broad range of industries. Ms. Domanico graduated cum laude with a B.S. from the Wharton School at the University of Pennsylvania.

Jamison C. Ely, Principal, San Francisco

Jamieson C. Ely joined KKR in 2004 and is a Principal on KKR Credit's leveraged credit team. In 2007, he was part of a team that moved to London to initiate the global expansion of the credit platform at KKR. Raised in San Francisco, Jamie graduated from Occidental College with a B.A. in Economics.

Christina Fang, Principal, San Francisco

Christina Fang joined KKR in 2010 and is a Principal on the Credit Product Specialist Team within the Client and Partner Group. Previously, she was an analyst in Fixed Income Institutional Sales & Trading at Morgan Stanley. There, she was focused on the distribution of leveraged credit products, primarily bank loans and distressed instruments. She holds a B.A. from Columbia University.

Zachary Jarvis, Principal, San Francisco

Zachary Jarvis joined KKR in 2008 and is a Principal on KKR Credit's leveraged credit team. Previously, Mr. Jarvis was a Partner in the ABS Trading Group at Peloton Partners LLP in London and Santa Barbara, CA. The group ran a $10 billion+ relative value ABS portfolio and Zach relocated from London to Santa Barbara to head up the group's U.S. presence. Prior to that, he worked at BNP Paribas in London on the Credit Derivatives Quantitative Research team. He graduated summa cum laude from Princeton University, where he earned his B.S.E. in Mechanical and Aerospace Engineering with a minor in Applied and Computational Mathematics. He received his Ph.D. and M.S. from the University of California, Berkeley in Mechanical Engineering, with a Control Systems focus.

Niraj Javeri, Principal, Sydney

Niraj Javeri joined KKR in 2010 and is a Principal on KKR Credit's special situations team. Previously, Mr. Javeri was with One East Partners in London and New York, where he invested across industries in event-driven and value equities, distressed debt and private deals. Prior to that, he worked at Goldman Sachs & Co in the Principal Investment Area (PIA) where he worked on private equity investments, and at Deutsche Bank in both the Leveraged Finance and Technology investment banking groups. Mr. Javeri received a B.S. from Cornell University in Electrical and Computer Engineering, and an M.S. from Stanford University in Management Science and Engineering.

Tomas Maraver, Principal, London

Tomas Maraver joined KKR in 2010 and is a Principal on KKR Credit's special situations team. Previously, he was part of the KKR Capital Markets team, based in London. Prior to joining KKR, he was with J.P. Morgan, where he was involved in a variety of transactions across acquisition financing, leveraged buy-outs, infrastructure financing and liability management in EMEA. He holds a Master in Science from the Universidad Pontificia de Comillas I.C.A.I where he majored in Industrial Engineering.

Mayo A. Shattuck, Principal, San Francisco

Mayo A. Shattuck IV joined KKR in 2008 and is a Principal on KKR Credit's Capital Solutions Group. Prior to joining KKR, Mr. Shattuck was with Goldman, Sachs & Co. in the Investment Banking Division in both New York and London. While there, he focused on mergers and financings in the Industrials and Natural Resources Group. Mr. Shattuck received a BA from Williams College and an M.B.A. from the Stanford Graduate School of Business.

Nikhil Srivastava, Principal, Singapore

Nikhil K. Srivastava joined KKR in 2009 and is a Principal on KKR Credit's special situations team. Prior to joining KKR, Mr. Srivastava was with Goldman, Sachs & Co., where he was involved in a broad array of mergers and acquisitions. Previously, Mr. Srivastava was an early employee of Inphi Corporation. Mr. Srivastava received a B.S. from Birla Institute of Technology & Science - Pillai, India. He received an M.S. in Electrical Engineering from Stanford University and an M.B.A. with honors from Harvard Business School. Mr. Srivastava is a co-founder of Anuradha Foundation, a non-profit organization focused on Education and Mental Health.

Markus Hunold, Principal, London

Markus Hunold joined KKR in 2013 and is a Principal on KKR Credit's special situations team. Prior to joining KKR, Mr. Hunold was a member of the Principal Investment Area of Goldman, Sachs & Co., where he invested across industries in private equity and principal debt transactions. Mr. Hunold started his career in finance at Citigroup in the Mergers &

Acquisitions Group. He holds an M.Sc. from the European Business School Oestrich-Winkel (Germany) and the University of Hong Kong.

Rony Ma, Principal, New York

Rony Ma joined KKR in 2011 and is a Principal on KKR Credit's Capital Solutions Group. Prior to joining KKR, Mr. Ma spent two years at Deutsche Bank in its Leveraged Finance Group in New York where he was involved in a number of leveraged buyouts and other financing transactions. Mr. Ma has a B.A., B.S., cum laude, from the University of Pennsylvania.

Martin Mix, Principal, New York

Martin Mix joined KKR in 2011 and is a Principal on KKR Credit's special situations team. Previously, Mr. Mix was a Principal on the KKR Private Equity team focused on industrials and chemicals. Prior to joining KKR, he was with JP Morgan in London, where he worked in both the mergers and acquisitions and industrial advisory teams. Mr. Mix holds degrees from Vienna University of Economics and Business and HEC Paris.

Jonathan Bregman, Associate, New York

Jonathan Bregman joined KKR in 2013 and is an Associate on KKR Credit's leveraged credit team. Previously, Mr. Bregman was an Investment Banking Analyst at Goldman Sachs, where he worked specifically on the Investment Banking Financing Group. Mr. Ha holds a B.A. in Ethics, Politics & Economics from Yale University.

Sam Clayman, Associate, San Francisco

Sam Clayman joined KKR in 2014 and is an Associate on KKR Credit's private credit team. Previously, Mr. Clayman was an analyst at UBS Investment Bank, where he worked specifically in the Leveraged Finance Origination Group. Mr. Clayman holds a B.A. in Economics from Yale University.

Fernando de Santiago, Associate, London

Fernando de Santiago joined KKR in 2014 and is an Associate on KKR Credit's special situations team. Previously, Mr. de Santiago was an associate at Houlihan Lokey, where he worked specifically in the Financial Restructuring Group. Mr. Wax holds a MSc in Business Economics and an MCs in Law from the Universidad Pontifica de Comillas.

Julian Gropp, Associate, San Francisco

Julian Gropp joined KKR in 2013 and is an Associate on KKR Credit's leveraged credit team. Previously, Mr. Gropp was an Investment Banking Analyst at Lazard, where he worked specifically on the technology team. Mr. Gropp holds a B.A. in Economics from Stanford University.

Arnold Ha, Associate, San Francisco

Arnold Ha joined KKR in 2013 and is an Associate on KKR Credit's leveraged credit team. Previously, Mr. Ha was an Investment Banking Analyst at J.P. Morgan, where he worked specifically on the Restructuring and Leveraged Finance team. Mr. Ha holds a B.A. in Business Administration from the Richard Ivey School of Business.

Michelle Hour, Associate, New York

Michelle Hour joined KKR in 2013 and is an Associate on KKR Credit's special situations team. Previously, Ms. Hour was an analyst at Perella Weinberg Partners, where she worked specifically in the M&A Advisory Group. Ms. Hour holds a B.A. in Economics from the Wharton School of Business at the University of Pennsylvania.

Jonathan Leu, Associate, San Francisco

Jonathan Leu joined KKR in 2008 and is an Associate on KKR Credit's leveraged credit team.

Previously, Mr. Leu was a Portfolio Analyst at GMAC-ResCap responsible for mortgage derivatives in Asset Liability Management and began his career in Asset Management at FAF Advisors. Mr. Leu received his BS in Economics from the University of Wisconsin – Madison.

Anthony Ma, Associate, San Francisco

Anthony Ma joined KKR in 2013 and is an Associate on KKR Credit's leveraged credit team. Previously, Mr. Ma was a Senior Investment Analyst at Prudential Capital Group, where he worked specifically for their mezzanine fund. Mr. Ma holds a B.S. in Administration and a B.A. in Economics from The University of California, Berkeley.

Jason Ng, Associate, San Francisco

Jason Ng joined KKR in 2013 and is an Associate on KKR Credit's leveraged credit team. Previously, Mr. Ng was an analyst at Morgan Stanley, where he worked specifically on the High Yield Credit Research team. Mr. Ng holds a B.C. in Finance from the University of British Columbia.

Amos Ouattara, Associate, London

Amos Ouattara joined KKR in 2012 and is an Associate on KKR Credit's special situations team. Previously, he worked on the Distressed Investing desk at Goldman Sachs for two years, and prior to that, he worked in its Principal Investment Area (GS PE fund). Mr. Ouattara holds a MSc in Applied Mathematics from ENSEA, and a MSc in Management from HEC Paris.

Chris Singh, Associate, New York

Chris Singh joined KKR in 2012 and is an Associate on KKR Credit's leveraged credit team. Chris joins KKR from RBC Capital Markets, Global Investment Banking Division where he was an Analyst for the Leveraged Finance Group. He has a B.S. in Business Administration with an emphasis in Finance from the University of Michigan.

Siddhartha Singh, Associate, New York

Siddhartha Singh joined KKR in 2013 and is an Associate on KKR Credit's leveraged credit team. Previously, Mr. Singh was an Associate at H.I.G Capital and Goldman Sachs & Co., where he worked specifically in their Specialty Lending Group. Mr. Singh holds a B.S. in Business Honors and Finance from The University of Texas at Austin.

Michael Wax, Associate, New York

Michael Wax joined KKR in 2013 and is an Associate on KKR Credit's leveraged and private credit teams. Previously, Mr. Wax was an analyst at JP Morgan, where he worked specifically in the Global Special Opportunities Group. Mr. Wax holds a B.A. in Business Administration from the George Washington University.

Carl Yang, Associate, San Francisco

Carl Yang joined KKR in 2014 and is an Associate on KKR Credit's leveraged credit team. Previously, Mr. Yang was an Assistant Director at Springleaf Financial Services, where he worked specifically in the Corporate/Business Development and Internet Lending Groups. Mr. Yang holds a B.A. in Economics from the University of California at Berkeley.

Shivom Sinha, Associate, San Francisco

Shivom Sinha joined KKR in 2013 and is an Associate on KKR Credit's leveraged credit team. Previously, Mr. Sinha was an Investment Banking Analyst at Imperial Capital, LLC, and worked closely with the Restructuring Advisory Group on creditor and debtor facing Chapter 11 engagements, as well as distressed mergers and acquisitions. He holds a B.S. in Business Administration from the Haas School of Business at the University of California, Berkeley.

Charmaine Chow, Associate, London

Charmaine Chow joined KKR in 2013 and is an Associate on KKR Credit's private credit team. Prior to joining KKR, she was in Morgan Stanley's Leveraged and Acquisition Finance team. Ms. Chow holds a BSc with Honors in Economics from the London School of Economics and Political Science.

Yewy Cheah, Associate, Sydney

Yewy Cheah joined KKR in 2013 and is an Associate on KKR Credit's special situations team. Previously, Mr. Cheah was an Investment Banking Analyst at Goldman Sachs, focused on the Industrials sector on the mergers and acquisitions team. He holds a B.S. in Civil Engineering and Commerce from the University of Melbourne.

Alexandre Ekierman, Associate, London

Alexandre Ekierman joined KKR in 2014 and is an Associate on KKR Credit's private credit team. Previously, Mr. Ekierman was a Private Equity Associate at NewGlobe Capital Partners. Prior to that, he was an Analyst in JP Morgan's Leverage Finance team. He holds a B.S.E. in Operation Research and Financial Engineering from Princeton University.

Henock Teklu, Associate, New York

Henock Teklu joined KKR in 2014 and is an Associate on KKR Credit's leveraged credit team. Previously, Mr. Teklu was an Associate on Deutsche Bank's Leveraged Finance Group. He holds a M.B.A. from Harvard Business School and a Masters in Accounting, Economic and Finance from WHU – Otto Beisheim School of Management.

Amardeep Chandi, Associate, New York

Yewy Cheah joined KKR in 2014 and is an Associate on KKR Credit's special situations team. Previously, Mr. Chandi was an Investment Banking Analyst at Morgan Stanley, focused on the Financial Institutions sector. He holds a B.S. in Commerce and Finance Specialization from the University of British Columbia.

Matthew Higbee, Associate, New York

Matthew Higbee joined KKR in 2014 and is an Associate on KKR Credit's special situations team. Previously, Mr. Higbee was an Analyst in Owl Creek Asset Management's Global Equities and Credit Group. Prior to that, he was an Investment Analyst in Arrowgrass Capital Partners' Global Distressed Debt Group. He holds a M.B.A. from the Wharton School of the University of Pennsylvania and a B.S. in Accounting and Finance from the University of Bristol.

John Howard, Associate, New York

John Howard joined KKR in 2014 and is an Associate on KKR Credit's leveraged and private credit teams. Previously, Mr. Howard was an analyst in Bank of America Merrill Lynch's Leveraged Finance Group. Mr. Howards holds a B.A. in Economics from Vanderbilt University.

Andrew Park, Associate, San Francisco

Andrew Park joined KKR in 2014 and is an Associate on KKR Credit's leveraged credit team. Previously, Mr. Park was an Associate Research Analyst for Canadian Equity and Fixed Income Research at Leith Wheeler Investment Counsel. Mr. Park holds a B.C. in Finance from the University of British Columbia.

Richard Schoenfeld, Associate, San Francisco

Richard Schoenfeld joined KKR in 2014 and is an Associate on KKR Credit's leveraged credit team. Previously, Mr. Schoenfeld was an analyst in JP Morgan's Leveraged Finance Group.

Mr. Schoenfeld holds a B.S. in Business Administration from Washington & Lee University.

Eugene Kolodin, Associate, San Francisco

Eugene Kolodin joined KKR in 2014 and is an Associate on KKR Credit's private credit team. Prior to joining KKR, Mr. Kolodin was an Associate at High Road Capital Partners. Mr. Kolodin holds a B.A. in Business Administration from The Ohio State University.

Jessica Yan, Analyst, San Francisco

Jessica Yan joined KKR in 2014 and is an Analyst on KKR Credit's leveraged credit team. Prior to joining KKR, Ms. Yan was a High Yield Research Analyst in Principal Investing at Wells Fargo Securities. Ms. Yan holds a B.A. in Physics with a concentration in Business and Technology from the University of Pennsylvania.

Julian Elburn, Analyst, Sydney

Julian Elburn joined KKR in 2014 and is an Analyst on KKR Credit's special situations team. Previously, Mr. Elburn was an Investment Banking Analyst at Goldman Sachs, focused on the Industrials sector. He holds a B.S. in Commerce and Economics from the University of Queensland.

William Kim, Analyst, New York

William Kim joined KKR in 2014 and is an Analyst on KKR Credit's special situations team. Previously, Mr. Kim was an intern in KKR Credit. He holds a B.S. in Economics from Harvard University.

Ratings Explanation

Below we describe the criteria which we use to rate fund management organizations and their specific investment products. Each criterion, except for Operational Due Diligence ("ODD"), is individually rated from 1 to 4, where:

1 = Weak
2 = Average
3 = Above Average
4 = Strong

The ODD factor can be assigned a Pass, Conditional Pass, or Fail rating and can be interpreted as follows:

Pass – Our research indicates that the manager has acceptable operational controls and procedures in place.
Conditional Pass – We have specific concerns that the manager needs to address within a reasonable established timeframe.
Fail – Our research indicates that the manager has critical operational weaknesses and we recommend that clients formally review the appointment.

An overall rating is then derived for the product from the individual ratings. We do not assign a fixed weight to each criterion to establish the overall rating; instead we consider each case individually. The overall rating score can be interpreted as follows:

Buy	=	We recommend purchase of this investment product.
Buy (Closed)	=	We recommend purchase of this investment product; however, it is closed to new investors.
Hold	=	We recommend client investments in this product are maintained.
Sell	=	We recommend termination of client investments in this product.
In Review	=	The rating is under review as we evaluate factors that may cause us to change the current rating.

The comments and assertions reflect our views of the specific investment product and our opinion of its strengths and weaknesses.

Disclaimer

This document has been produced by the Global Investment Management Team of Aon Corporation. Nothing in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this document alone. Consultants will be pleased to answer questions on its contents but cannot give individual financial advice. Individuals are recommended to seek independent financial advice in respect of their own personal circumstances.

Aon Corporation
200 E. Randolph Street
Chicago
Illinois 60601
USA